

livesiment in China Money floods into a not economy



US military might How a sole superpower aims to keep its edge



Domaid Brash New Zealand's apostle of low inflation



right as rain

## FINANCIAL TIMES

Europe's Business Newspaper

### First woman takes office as Turkish prime minister



Former economy minister Tansu Ciller (left), a 47-year-old academic economist, is to be sworn in today as Turkey's first woman prime minister after being elected leader of the conservative True Path party. She is likely to accelerate Turkey's economic convergence with the

European Community. The leadership contest was prompted by Suleyman Demirel's move to the presidency. Page 14; PM must reforge party

Bosnian hospital flattened: Serb rocket fire was reported to have destroyed a temporary hospital, killing more than 50 patients and medical staff in the Bosnian Moslem enclave of Gorazde. In Geneva mediators led by Lord Owen met Bos-nian president Izetbegovic in an effort to end the slaughter. Question mark over Nato, Page 30

Rome raises bank powers: Italy'a banks are to be allowed to take stakes in industrial companies, in a move to boost privatisation and bail out troubled private companies. Page 14; Italy to sell off financial services group, Page 15

Communist party boss in Azerbaijan, was set to return to power after Isa Gambarov, quit as parliamentary chairman, Page 5 GM warns VW: General Motors of the US has

Azerbaijan switch: Geidar Aliyev, former

warned Volkswagen of further legal action if it builds an ultra-low-cost car plant in Spain.

Supreme Court hitch: Judge Stephen Breyer of Massachusetts, a likely choice for the US Supreme Court, and his wife failed to make social security payments, an error which ended the hopes of two previous contenders for high positions in the administration. Page 14

Cambodia unrest: Cambodia's assembly, elected in UN-organised polls last month, opens today amid threats of secession from the present communist administration. Page 3

Malawi votes: Voters decide today if Malawi should remain a one-party state under life president Kamuzu Hastings Banda or if opposition parties should be allowed. Page 3

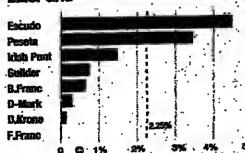
Gatt hope: US business is hoping for a breakthrough in the Gatt world trade talks next month, says Apple Computer chairman and chief executive John Sculley, Page 4

Hard line on Kuriles: Russian president Boris Yeltsin has told Japanese bosts of next month's Group of Seven summit not to expect concessions on Tokyo claims to the Kurile Islands. Page 5

Portugal air crash kills four: A Portuguese air race was cancelled after a Cessna C-172 light aircraft crashed at Montargil, central Portugal, killing all four on board.

European Monetary System: The Spanish peseta has strengthened its position in the exchange rate mechanism grid following Mr Felipe González's general election victory last weekend. Bottom of the grid late last month in the run-up to its formal devaluation, the peseta starts this week second, behind the Portuguese escudo. Questions still hang over the strength of the D-Mark, which is only 0.32 percentage points above the French franc in bottom position. Some dealers believe the D-Mark could fall to the lowest place. Lex, Page 16; Currencies, Page 25

EMS: Grid



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Hanson, Angio-US conglomerate, said it may retract proposals limiting the ability of sharehold-ers to influence annual meetings. Page 16

Libyan envoy killed: Libya's ambassador to Congo Mahmoud Mohamed Saad was shot dead when he failed to stop at a checkpoint.

**Egyptian plotter hanged:** Sherif Hassan Ahmed, convicted by a military court last December of plotting to overthrow the Egyptian government was hanged in Alexandria.

Race criticism rebuffed: Officials at Aintree, Liverpool, rejected criticisms of the Grand National horse race in April which was abandoned after two false starts, but said starting procedures would be changed for next year's race. Page 6

Soccer: England drew 1-1 with Brazil in the

US Cup in Washington.

OF12.00 SR11 SS4.10 KSL45 SLT220 Ps200 SK15 SF3.20 SC50.00 Dirt 250 Urto 250 LF-60 Cutor
LT-0.60 S.Arable
MIDH13 Singapore
F1 3.75 Stonak Rp
Naire45 Spoin
NAV16.00 Sweden
CR1.50 Sweden
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## Turmoil at EBRD over top role for Stern

Calls to postpone decision until after audit report

By Robert Peston, Banking Editor

A GROUP of directors at the European Bank for Reconstruction and Development will this week try to postpone any formal decision to appoint Mr Ernest Stern, the present oumber two at the World Bank, as the EBRD's new senior vice-president.

Mr Ron Freeman, the bank's first vice-president in charge of merchant banking, who told col-leagues on Friday he would probably resign, yesterday decided to stay on and is likely to support the directors' campaign to postpone any decision on the bank's management reorganisation.

Some directors want to delay changes until after an audit into the bank's control of expenditure is completed on July 15. They believe it would be wrong to restructure the management until they can assess who was responsible at the bank for the overspending on its new huilding, the charter of private aeroplanes and other expenses reported in recent months.

The directors believe a decision to appoint Mr Stern now could make it difficult to remove Mr should the audit report criticise him. Mrs Anne Wibble, Sweden's finance minister, who is chairman of the EBRD's governors, last week expressed her support for a delay in the managem reorganisation until after the audit report.

The issue threatens to become a serious row between the senior financial officials of the Group of Seven leading industrial countries who own 54 per cent of the banks shares, known as the G7 deputies, and the non-G7 mem-bers of the hoard of directors. The G7 deputies offered Mr Stern the new appointment without reference to the board of directors.

"The G7 deputies have been duplicitous," said one EBRD director, who believes they have

By Tony Walker in Beijing

FOREIGN investors will sign contracts with Chinese partners worth some US\$80hn in 1983.

according to a senior trade offi-

cial in Beijing. Mr Lin Kun, deputy director of

foreign investment in China's

trade ministry, also said that China was planning further steps

investors and these would be

unveiled at a national sympo-

Hong Kong, Japan, the US, Taiwan and South Korea would

spearhead the continuing invest-

ment surge into China, Mr Lin told the English-language Business Weekly. "China's market is no looger potential, it's tangible,"

Official figures show that China signed agreements in 1992

involving \$68.5bn in foreign capi-tal, while foreign funds actually

flowing into the country last year totalled \$11bn.

Mr Lin predicted that the main

targets for investment this year

would be the automotive sector

and onshore oil exploration. This

latter was a reference to the invi-

tation to foreign companies to

sium later this year.

he said.

LIK News

to open its markets to overses

Beijing predicts

investment surge

gone behind the back of the board of directors, "I and my colleagues are appalled by their

actions," said another. The directors oppose Mr Stern's appointment for several

They believe it will lead to a radical shift away from the bank's original philosophy of focusing on financing the fledg-ling private sector in eastern Europe and the former Soviet Union to a more traditional development banking strategy of investing in infrastructure. At a board meeting last Thursday, most directors made it clear to Mr Attali that they would strenu-

ously oppose such a change.

Some directors are also angry
after being told that Mr Stern has been offered an after-tax salary of £250,000, similar to Mr Attali's. Together with pension, health and other benefits, this is equivalent to a pre-tax remuneration package of about £700,000. "That would cause tremendous pressure to raise other salaries in the

benk," complained one director.
Appointments of vice-presidents must be approved by the
EBRD's board of directors, which meets today. A group of nine week that they will use procedural devices to prevent the appointment of Mr Stern until they have received the report by the bank's audit committee on why the bank spent £55.5m. (\$85m) on fitting out its besdquarters and why it has been lax in control of other expenditure.

Mr Stern is understood to have accepted the offer of a position as deputy to Mr Attali. That role has, in effect, been filled by Mr Freeman, who is understood to he disappointed Mr Attali has supported Mr Stern's recruitment. A bank executive said Mr Freeman feels he has given unwavering support to Mr Attali since details of overspending and mismanagement at the hank were disclosed in April.

in China's far west, described as

one of the world's last great oil

China, facing energy and min-

eral shortages at home, is also

conducting a wide-ranging sur-

vey of investment prospects ahroad, according to Mr Zhang

Hongren, vice minister of geology

His ministry had launched pre-

liminary studies of more than 20 countries in Asia, the Americas and Africa, including Australia

further steps to open China's automotive industries to foreign

participation would lead to a big

He noted that China bad

approved foreign involvement in

only 10 domestic automotive

plants. "These plants far from

meet the aoaring domestic demand for automobiles."

Mr Lin did not expect the con-tinuing depreciation of the yuan

- it fell 7 per cent to Yn10.7 to

the dollar last week - would

CONTENTS

and mineral resources.

and Brazil, said Mr Zhang. Mr Lin sald meanwhile that

jump in investment.

deter investors.

TV and fladio

## Japanese shy away from move into east Germany

By Robert Thomson in Tokyo

JAPANESE companies, expected to play an important role in reconstructing Europe, have acquired a mere three businesses in east Germany through the Treuband, the German privatisa-tion agency - only one more acquisition than companies from India and the same number as

The total is a disappointment for the Treuhand and an embarrassment for the Japanese government, which had suggested, at the fall of the Berlin Wall, that the country's current account surplus would be recycled to the reconstruction of the region. Having opened a Tokyo office

two years ago in expectation of interest in the estimated 13,500 German companies on the block, the Treuband has learned valuable lessons about Japanese corporate culture and the receding Japanese enthusiasm for Europe.

The Japanese total of three acquisitions, two in the glass industry and one in car servicing, compares with the 78 east German factories acquired by UK companies and the 54 bought by US companies. Indonesian companies have made two acquisitions, only one less than the Japanese total.

"It's quite amazing, isn't it?" lamented Mr Dietrich von Stackelberg, head of the Treuhand's east Asian operations. "The timing was wrong. With the collapse of Japan's economic hubble, we bave seen an increasing reluctance to invest in Europe. Their operations are contracting, not

Facing criticism over Japan's huge current account surplus, the government had argued that investment in the reconstruction of Europe would recycle the surplus, which has more than trebled over the past two years. In the same period, new Japanese direct investment in Germany

has fallen 38 per cent. Mr Nohuyuki Nagashima, assistant director for Europe at the Japan External Trade Organisation, said German unification coincided with the slowing of the Japanese economy, while compa-nies were unfamiliar with east German companies and reluctant to risk funds.

Mr von Stackelberg is due to depart later this year, and the lack of deals means there is little reason for the Treuhand to maintain Tokyo support staff.

He suggested that the agency's experience highlighted an important difference in corporate culture between the US and

New Int. Bonds .

Please Information

World Stock Markets.

Int. Bond Service.

Continued on Page 14

China's investment revolution, US, Japan trade split, Page 4

## Pakistani UN troops kill 12 Somali demonstrators

two US air strikes on warlord Gen Aideed'a weapons stockpiles and his radio station

By Leslie Crawford in Mogadishu

PAKISTANI troops serving with the United Nations operation in Somalia killed at least 12 people yesterday when they opened fire on a 4,000-strong demonstration. Supporters of Gen Mohamed Farah Aideed, the warlord whose forces the UN is attempting to disarm, were protesting peacefully in the centre of the capital Mogadishu.

The shootings followed two nights of US-led air strikes that crippled Gen Aideed's clandestine weapons stockpiles. The operation was authorised by the UN Security Council after Aideed Helmets last weekend.

The actions of the UN forces bave buried its humanitarian mission in Somalia. Mogadishu is now a city besieged by a multinational occupation army. Gen Aideed's supporters in the south of the clan-divided capital are stunned and angry.

Tanks patrol the streets. Helicopters swoop down to disperse crowds. Lorry-loads of detained men, women and children are being corralled at the grounds of the former university, now a US military centre.

UN tanks rolled by and ignored pleas for belp from the many wounded in yesterday's shoot ings. On Saturday Pakistani troops fired into a crowd after stones were thrown. Their shots killed one Somali and wounded a woman and a man. The woman died later at Benadir hospital, where the injured were being operated on without anaesthetic on makeshift wooden tables

swarming with flies.
The heavy-handedness of the Pakistani contingent has been a leading cause of rising tension and hostility against the UN in the capital. Brigadier licram ul-Hasan, commander of the 4,000 the Somali capital, told a press conference yesterday that he was investigating yesterday's inci-dent. "The simple fact is that

gunmen use women and children as human shields," be said. The brigadier said he did not think his troops were an inflam-matory presence. Nor did he think there had been a violatioo of the UN's rules of engagement.

Other UN military spokesmen have refused to comment. But the French relief agency Medecins sans Frontières, one of the few still operating in the capital,

described the yesterday's killings as monstrous.

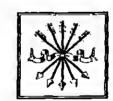
At the bospital, a doctor said he was sickened by the events:
"The UN has started another war
in Somalia. The people are tired
of war. Even if they kill Aldeed,
there are thousands of other Aideeds out there to take his place."

The midnight bombings were undertaken with surgical precision to avoid civilian casualties. US Cobra belicopters and slowflying aircraft picked out three armament sites and Geo Aideed's radio station during the first strike over Mogadishu on Satur-

yesterday to destroy what the UN claimed was a "veritable forcontaining weapons, tress" ammuoition and armoured vehicles. It helonged to Mr Osman Ato, Geo Aideed's financier. The explosion lit up the night in the blacked-out city. Later, a building held by Pakistani peacekeepers came under heavy rocket attack from Geo

Aideed's gunmen.
Reporters visiting the bombed site yesterday saw no evidence

Continued on Page 14



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## **FINANCIAL TIMES COMPANIES & MARKETS**

Monday June 14 1993 OTHE FINANCIAL TIMES LIMITED 1993

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INSIDE

### Hanson may retract

meeting rules



Hanson, the multinational conglomerate, said it may be prepared to give in to pressure from angry shar holders and retract prosure from angry shareosals limiting their ability to influence annual general meetings, which are chaired by Lord Hanson (left). Mr Martin Taylor, deputy chairman, said it was too late to remove the proposals from the ballot for an extraordinary meet-

ing to be held on June 25. However, he said: en we come to review our articles next year we will see if they need to be changed." The proposals have provoked a storm of protest. Page 16

#### lbos set to rival Swift

Up to five US banks are this year expected to join the Ibos cross-border payments network, operated jointly by a group of European banks. Their decision is likely to start bringing the network into com-petition with the Swift system that dominates EC cross-border payments. Page 17

#### **Enron sees opportunity**

The deregulation of the tightly controlled natural gas business in the US has opened up new oppor-tunities for energy companies, none more so than for Enron, based in the oil and gas capital of the US: Houston. Non-existent 10 years ago, Enron has mushroomed to the point where it claims to be "the nation's largest natural gas company". Page

Wall Street relaxes on inflation Judging by the recently released May producer prices index for the US, it looks as if the inflation scare may be over. Page 18

#### Demand for gifts holds up

The announcement on Friday by the Bank of England that £700m (\$1bn) of bonds will be on sale from today failed to puncture generally good demand for gitts from overseas investors, Page 18

#### Prospective p/e ratio ·

The latest prospective p/e ratio for the "500" index for calendar 1993 is 14.4, according to IBES, the consensus estimates service (last week: 14.4). This compares with an IBES estimated p/a for the "500" of 18.7 (18.6) for calendar 1992, The official FT calculation of the historic p/e, based on the latest reported earnings, is 19.3 (19.10).

#### Market Statistics .

Base tending rates	25	London share service
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i	Beauford
	Bulgin (AF)
	<b>Business Technolog</b>
	Cohen (A)
ı	Enron
	Hambros Inv Trust
	Hanson
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1a. Oriflame inti
16. Perpetual Japanese
1a. Policy Portfolio
16. R.H.Macy
1a. PCO 17 Sharelink 16 Sornic 16 Tetra Lavai 15 Vard

ISTITUTO Mobiliare Italiano, the hig long term lending and financial services group controlled by the Italian treasury, is to be floated following the collapse of sale talks to a group of publicsector savings banks.

The government will sell the treasury's 50 per cent etake in IMI, and a further 9.3 per cent owned by the Ina state insurance agency. Mr Piero Barucci, the treasury minister, said he hoped

The 20 per cent stake could be worth about L1,600hn (\$1bn), financial institutions, specialising in long-term corporate lend-

a first 20 per cent tranche of IMTs ing. It also has a big securities shares could be floated by the trading capability, and has in

Milan, is due to be sold. The change in strategy over

450

talks with a group of savings banks, led by Milan's Cariplo, over the issue of price. in a terse statement, the government said

both as far as the price and the means of payment is concerned". While some analysts greeted the decision to float IMI as a

ing to raise about L3.800bn from

The decision helped the City of

London realise the true worth of

the company, Mr Cahill sald.

"The corporate jet business with

£300m s year turnover and £25m pre-tax prafits represented only 3

per cent of our total sales. We

sold it for more than a quarter of

In any case, the trend in the

hard-pressed commercial aircraft

sector as well as in the military

was towards ever-increasing consolidation and collaboration, "We

have to rationalise and we won't

be building aeroplanes on our

"It is almost inevitable that in

the US there will be two military

aircraft and one large commer-

cial aeroplane manufacturer,

against just the possibility of one

of each in Europe," Mr Evans

In the longer term, a similar consolidation is likely to take

place in the car husiness, according to Mr Cahill. At present

Rover remained an important

component of his group. "The

objective is to get Rover Into

own any more," Mr Cabill said.

our market capitalisation."

IMI came after the breakdown of the transaction. IMI, which had 1992, is one of the most attractive assets on the government's priva-

Purchasing IMI would have

£1bn write-off, dividend cut.

flotation

Services, the telephone-based UK stockbroker, is to float at the end of next month. The group is

SHARELINK Investment

By Roland Rudd in Londor

to be raised which will be invested In new services.

Sharelink, which currently specialises in equities and traded options, is looking at expanding into insurance and bank-

Mr David Jones, chief execuwe are now looking at moving into other areas."

includes the repldly growing telephone insurance husiness.

trehled first-half profits to £15m.

business in 1987, is expected to sell 25 per cent of his 20 per cent holding making him a millionaire just six years after be invested £4,000 in the business. He increased his shareholding

Birmingham-based stockbroker.

per cent. £14m. The company is based in

In the past it has thrived on privatisations but during the last year It has mainly concentrated

A number of new issues have been brought forward before the government sale of its remaining 21.9 per cent stake in BT which is to take place in the middle of

ceded Mr Evans. Over the last three years, BAe has shed about 45,000 jobs. "And the process is However, Mr Jones believes the BT sale will not affect his

least, BAe and its "wise old sage of a chairman who has seen it all him, are having a party in Paris.

## Italy to sell off financial services group

By Haig Simonian in Milen

based on the valuation of between L7,600bn and L8,000bn for IMI made by SG Warburg, the UK merchant bank. Warburg and IMI itself have now been given the mandate by the treasury to prepare the way for flotation. IMI is one of Italy's biggest

recent years branched out into

insurance and retail banking. The failure of the sale talks means the government now has three hig banks on its disposal list. Last year, it announced plans to privatise Credito Italiano, Italy's sixth-biggest bank, while Banca Commerciale Italiana, another prestigious financial institution also based in

BAe: share price roller-coaster.

£432m rights issue at 380p a

shere, only 4.9% taken up.

sell off non core assets," he

explained. Three significant

developments have recently

helped revive confidence in the

company's £5bn a year defence business: the UK government's

commitment to the European

Fighter Aircraft; Saudi Arabia's

intention to go ahead with a new order for an additional 48 Tor-

nado combat aircraft; and the

negotiations to merge BAe's

guided missiles activities into a

joint company with those of the

in the commercial aircraft sec-

tor, BAe is focusing on its 20 per

cent stake in the European Air-

bus airliner programme. After establishing a joint venture com-

pany with Taiwan Aerospace for

its loss-making regional jet bust-

a similar partnership with other International manufacturers for

its Jetstream and ATP turbopro-

peller regional aircraft activities which have been regrouped at

Prestwick in Scotland.

ss, the company is now seeking

French Matra group.

Appointed chairmen.

the banks' offer was "inadequate

boost for "transparency," It represents a severe setback to both the treasury and Cariplo.

The government had been hop-

group net profits of L443bn and a loan book of about L51,000bn in tisation list.

given Cariplo, always the leading force among potential purchasers, a boost. Although it is strong in retail banking and deposit-tak-ing, Cariplo's presence in investment banking and securities trading is weaker, especially

moving into profit this year," he

But what will eventually hap-pen to the car group? "Who knows?" said Mr Cahill. "At the

moment we have no plans, but I

could see the car industry con-

centrated one day into six compa-

nies: two in the US, two in Japan,

dancies have also created a lot of

uncertainties and has made the

job even more complex," con-

But for a sbort moment at

before", as Mr Evans described

not over," warned Mr Evans.

be called Rover."

expected to be valued at more than £30m (\$46m). Around £5m of new money is Paul Betts explains a change of culture at the UK's biggest export manufacturer

tive, said: "The retail financial services market is full of opportunities; after pioneering the use of the telephone in selling shares He confirmed that this

Direct Line, the company owned by the Royal Bank of Scotland which epecialises in telephone Insurance, recently

Sharelink's two biggest sharebolders, Foreign & Colonial Ventures and the British Coal pension fund, both of which have a 32 per cent stake, are expected to sell around half their sharebold-

Mr Jones, who started the

after a management huyout from the original institutional backers, BT and Albert E Sharp, the The company's other share-

holders are the employees with 10 per cent and Eagle Trust with two in Europe - and one will not Although he believes the com-pany has now found some badly-needed stability, Mr Evans warned that the process of Pre-tax profits for the year to March 31, 1993 have jnmped from £1m to £3.5m on sales of

Birmingham with more than 300 restructuring was by no means "We are oow finally getting the organisation up and running again. But closures and redun-

on equities.

"There is plenty of money in the new issue markets," he said.

#### it brings its head out of the clouds R JOHN CAHILL flew in last week to his first Paris Air Show as chairman of British Aerospace on a regular British Airways flight. goods.

BAe benefits as

"I'm a small businessman and I

simply cannot justify coming here on a private BAe 125 jet at a cost of £6,000 an hour," he said, watching the noisy flight displays from BAe's entertainment chalet at the world's biggest air

Since he was brought in to lead the UK's biggest export manufacturer a year ago, Mr Cahill has sought to instil the same sort of "hair shirt" mentality that prevailed in his old company, the BTR industrial conglomerate.

Although the company is by no means out of the woods, and has been buffeted like the rest of the industry by recession in the civil aircraft market and contraction in the defence business, it had more to celebrate in Paris than most aerospace companies.

It was one of the few to announce a hig order: for Hawk trainer-light attack aircraft worth £500m (\$770m) from Indonesia. Its shares climbed over the 380p mark for the first time since its ill-fated rights issue 18 months ago, which provoked a savage boardroom battle, the resignation of the chairman, Professor Sir Roland Smith, and ultimately the arrival of Mr Cahill.

The company also returned in the FT-SE 100 index after a ninemonth absence. Last September, BAe's shares hit a low of 107p. On Friday, they closed at 410p. This sharp rise is making Mr Cahill a little nervous. "It's getting too hot now: I'd hoped the share price wouldn't go through 400 so quickly," he said.

For Mr Cahill the reason the

company is returning to favour in the City is simple. "We simply had to establish credibility: we had to tell the world what we were doing and then deliver the

The strategy itself has not changed. What has changed, according to Mr Dick Evans, BAe's chief executive, is the internal chemistry. "No one guy can lead a company of this size which is very diverse and has a big political element because governments are our customers. But to be successful we had to have a team of people who were able to work together," he explained, adding that this had not been the case under Sir Roland.

But Mr Cahill has quietly brought a change of attitude and culture in the company. From the beginning, he sought to introduce at BAe the same concept of open management, accountability, transparency and tight cost controis that BTR adopted.

in the early 1960s, Mr Cahill recalled, BTR had a bad hahit of always predicting more than it could achieve. The result was that the company lost money twice In three years. "We then sat down and said: we must he predictable, reliable, an open book. BAe for many years was a very private company and we have to show that we have nothing to hide," he said.

Ae's basic strategy is "to support and protect" its main defence business, he emphasised. To do this, the company, which has been cash negative in the last few years, had to become cash positive again.

"Cash is our mission. Our plan is to get overheads down, turn And two weeks ago, it sold for £250m its BAe 125 executive jet objective is to get Rover Into business to Raytheon of the US. profit and we hope to see Rover inventories back Into cash and

## aged units are often in poor regions, precisely those which most need foreign aid. In India, interested in **UK** property

By Norma Cohen,

BRITISH institutional investors are showing more investment than at any time in the last three years, according

cent of those surveyed planned to increase their holdings of UK property, the highest level since the survey began in July 1990. Last month, 12 per cent said they intended to make UK property investments and in february, none was prepared to make such a move.

(\$1bn) under management.

A balance of 6 per cent of managers planned to increase

shares this year. fund managers were less

investments

estments Correspondent

to a new survey.
The Smith New Court/Galhap Survey of Fund Managers for June showed that 22 per

The survey, conducted on June 7th and 8th, covered 95 institutions with £661bn

their holdings of UK equities, down from 18 per cent in May and the lowest level for planned investment in British In other asset categories,

enthusiastic about foreign equities than a month ago, with a balance of only 6 per cent planning to increase European exposures, 9 per cent raising Japanese weightings and 24 per cent increasing investments in other areas. In May, the weightings were 13, 24 and 28 per cent respectively.

There has been an increase in the popularity of indexlinked gilts since March. In the June poll, a balance of 8 per cent planned to raise investments in that sector, up from 1 per cent in March.

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June, 1993

THE residents of Delhi and much of northern India were looking for scapegoats after power cuts which this week left them sweltering for many hours without lights, fans, coolers or air-conditioners. The immediate cause of their distress was a surge in demand for electricity which over-

whelmed the generation and transmission network. That India, like many developing countries, does not produce enough electricity is well India's Ministry of Power

estimates that in the year to the end of March the shortages amounted to around 9 per cent of the country's total needs and 18 per cent of its peak In the past, the standard

A second second

response to power shortages in developing countries has been to build more power stations. in the late 1980s, India was building an annual average of 4,000 megawatts (MW) of generating capacity a year - the equivalent of four large power stations. By March 1992, total capacity in the public sector (which accounts for the vast majority of power) stood at 69.000MW.

However, in the 1990s, capi-tal has been much harder to find. The public sector construction programms has almost ground to a halt and India is seeking private investors, including foreign companies, to take up the slack. Even if this initiative brings results, private companies will not contribute to a significant increase in power supplies until the late 1990s, given the long lead times in making such large invest-

This gloomy prospect has forced the Indian authorities to concentrate upon doing something that should have been done a long time ago - making better use of existing plant Indian power stations typically run below 60 per cent cent capacity. Also, 23 per cent of the power generated is lost in transmission - through theft

## A test for the public services in poorer countries

or faulty equipment. While the efficiency of stations has improved in the past decade, transmission losses have actu-

Acknowledging the scale of the problem, the World Bank, the principal supplier of low-interest loans for power schemes in developing countries, has slowed new credits for new power stations and is lending India \$350m to fund improvements in the existing network, The shortcomings in the

is exploited to its full potential. But In some countries, including India, full-scale privatisation is, at best, a distant prospect. Aside from the reluctance of politicians and officials to surrender administrative power, there are very real concerns about the regulation of private companies entrusted with essential services. For example, privatising the water supply In a drought-prone

country such as India would be

**Economics Notebook** By Stefan Wagstyl in New Delhi

Indian power supply industry highlight a general problem afflicting developing countries. politically impossible. A lot of time and money is lavished on new capital investments and not enough on maintaining the efficiency of existing capital, particularly in the public sector. What is true for power stations is often also trus for roads and railways. pipes and sewers, and public buildings.

One reason for this misallocation of resources is political: politicians, who have the last word in spending decisions, prefer to put their names to new schemes than to renovating the projects of their predecessors. Such temptations are not unique to developing nations: the problem is to increase incentives for the good management of existing

Many countries have opted for privatisation - private owners are much more likely than

The only alternative is to cajole public sector managers to become more efficient. The government can try to apply pressure, but frequently politi-cians' priorities will not always square with the goals of efficient management. In India, much electricity is stolen by residents of illegal slums, who attach wires to overhead cables. Since slum-dwellers have votes there is little political incentive to deprive them

The World Bank and other aid donors try to improve the running of public services by directing funds towards operations which are well managed, at the expense of those which are not. But there is a limit to which outside agencies can become involved in such detailed choices without being accused of bullying and interfering with national sovereignty. Also, the worst-man-

of free power

the most efficient power sta-tions were those in the state of Maharashtra, including wealthy Bombay, which ran at seattly bollowy which has at 58 per cent capacity. Those in deprived West Bengal managed only 28 per cent. Another way for foreign

donors to influence change might be to supply more information to consumers in India and other developing countries. The means might be to prepare league tables compar-ing the efficiency of the service delivery in different states. The World Bank and other international agencies already do this for many criteria, notably GNP and GNP per capita, and for the production totals of individual industries, including

electricity generation.

The emphasis in such data is on volume. It would be possible to supplement the figures with statistics which measure the quality of what is produced. As far as public services are concerned, the electricity industry is a suitable starting point because production is concentrated in relatively few units, so collecting information may not be too difficult.

Capacity utilisation and transmission losses might be appropriate indicators. Other possibilities include capacity use in the water industry, average delays on railway journeys, flight cancellations by domestic airlines and the number of attempted telephone calls made for one successful connection. Such figures would be of

be a valuable tool both for the officials who run public services and for consumers. The popularity of such inter-country comparisons is amply demonstrated by the success of the United Nations Development Programme's annual report on human development which is in its fourth year and

sells 100,000 copies.

more than academic interest.

Properly packaged they would

Now, 100 years on, China is ouce again wooing the overseas Chinese to participate in developments at home. And the Chinese diaspora, many of whom are removed from China by several generations, are

While investment in China by US, Jananese and EC interests has been increasing substantially, it is the financial resources of the overseas Chinese which are now beginning to transform many parts of China.

Just how much of China's foreign

investment is accounted for by overseas Chinese is hard to gauge. But its influence is plain to see. has been transformed by capital flowing in from nearby Hong Kong. Businessmen from Taipel are overrunning Fujian, the mainland province just across the water from Taiwan. The vast resources of the overseas Shanghainese - some of them the entrepreneurs primarily responsible for the emergence of Hong Kong in the 1950s and 1960s -

are now returning bome. Traditionally the overseas Chinese have always been great savers. Taiwan, with 21m people, has for\$90bn. Singapore, three quarters of whose 2.8m people are Chinese, has reserves of more than \$40bn.

The Chinese dominate the econ mies of south-east Asian countries. In Indonesia, Thailand, Malaysia and the Philippines it is the Chinese – though often only a small minority - who control trade and run the

biggest companies.

Mr Liem Stoe Llong, an Indonesian Chinese, runs the Salim group, believed to be the biggest in the region with an estimated annual

investment

Mr Liem, who left China as a pen-niless teenager, is now investing millions in China, much of it in property in areas round his birth-place in Fujian province.

Mr Robert Knok, a Malaysian Chi-nese, has a business empire mainly involved in commodities and hotels. Mr Kuok is investing in building hotels and commodity processing facilities in various parts of China. Chinese businesses are traditionally family-run, secretive enterprises. A web of Chinese family con-cerns stretches throughout east Asia

and, increasingly, into China.
For the most part the overseas Chinese avoid China's cumbersome bureaucracy: in many cases they strike informal deals with local groups, often based on family con-

For some there is a strong emo-tional attachment to the homeland. But most investments are made for hard-headed commercial reasons. They, like so many others, are intent on making the most of the opportunities available in such a

### Careful planning key to rewarding ventures

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CHINA'S remarkable progress may tempt unwary foreigners to believe they can shaply invest in a joint ven-ture, sit back and wait for the profits to roll in. Not so. Joint ventures Not so. Joint ventures require enormous preparation and constant attention. The Chinese economy has moved some way towards the market, but businesses still need the right contacts to ensure saccess. Problems need to be worked out through persistent negotiation. Businessmen and law yers with experience of China say that the rewards are there, but they have to be earned. They offer these suggestions:

• Identify what you want out of a joint venture, and try to anticipate what a potential partner would want. You may have an eye on You may have an eye on the domestic market, but a Chinese company may be looking to export. Mr John Heyer, director of the China-Britain Trade Group; says: "Quite a lot of joint ventures have fallen by the wayside because the two sides have not identified overlapping aims."

lapping aims." Find the right part-ner, whose most impor-tant qualification will be good connections in relevant city, provincial and state bodies.

Mr Robbie Robertson director of strategic relations for GPT, which has a successful joint venture making PABX telephone systems in Shanghai, says: "If a venture is not with the right peo-ple, it will not succeed." A partner provides access to a skill and labour base; as well as the local clout to ensure that a venture receives materials for which state or municipal authorities remain

 Pick the right location. Though investment has poured into special economic zones here set-up costs may be lower, the quality of infrastructure, particu-larly for transport, will be more important in the longer run.

 Get a good contract including a reasonable amount of detail. Mr Stuart Valentine, a solicitor at Clifford Chance in Hong Kong, says this is important even though Chinese and western views of a contract may differ. The Chinese are likely to treat it as a framework for discussion in the event of problems. "You can't bang the table and say 'this is what the contract says'," Mr Val-

ζ.,

entine says. Resolve problems through uegotiation.
There is little point in
pursuing a claim
through courts in
China, and lawyers say
they know of no case in
which a judgment in a foreign court or arbitra-tion tribunal has been

enforced in China. Use expert advice and the experience of others. For British businesses, the China-Britain Trade Group runs seminars and plans a "mobile work-shop" in China in the autumn as part of an

## Lure of the billion-buyer market

With 1.1bn people, the world's biggest consumer market is eyed increasingly seriously. Foreign investment doubled last year and is projected to surge again this year. FT writers report

By Tony Walker in Belling

lively vice-mayor of Tianjin and the man in charge of attracting foreign investment to the north-east industrial city, had no reserva-Asked if he was concerned about problems of economic overheating, Mr Ye observed: "It's not nearly hot enough in Tianjin. We want more heat."

While his words may cause a sbudder among Beljing bureaucrats charged with restraining China's runaway economy, they also neatly reflect senti-ments among Chinese provincial officials who see a rapid inflow of foreign investment as bringing jobs, raising living standards and overcoming acute infrastructural problems. Mr Ye and his colleagues in China's coastal regions and in a bandful of inland industrial

centres could hardly complain about new investment contracted in 1992, which reached astonishing heights and confirmed China as the main destination for new funds in the world's fastest growing region - and as the recipient last year of about one quarter of funds invested in developing coun-

According to official statistics, China signed agreements in 1992 involving \$68.5bn in foreign capital, two and a half times that for 1991. Foreign funds actually flowing into more than double the year before, and the surge is continuing.

Figures this month from the Ministry of Foreign Trade and Economic Relations (Moftec) showed that in the first quarter 17,500 projects involving foreign capital - and worth nearly \$25bn - were spproved, up 320 per cent on 1992.

Western economists urge caution in assessing Chinese statistics, which are invariably accompanied by highly optimistic official interpretation. For a start, China often builds into the investment figures equity from the Chinese side. thus giving an exaggerated impression of the size of the capital inflow.

Also, some investment is of Chinese origin but has been routed through offshore entities to take advantage of tax

Many so-called agreements are also little more than memorandums of understanding that stand little chance of yielding projects on the ground. An allied problem has been Chinese sluggishness in absorbing investment due to bureaucratic blockages, infrastructure deficiencies and cultural and political hesitancy. Between 1978. the first year of the economic "open door" policy, and 1991 China signed contracts worth \$48bn. of which less than half was actually invested.

R YE DISHENG, the

changing, not only in go-go Guangdong province in the south, but also in other cities such as Shanghai, Tianjin and now even staid, bureaucratic Beijing, all of which have joined the scramble for investment funds. It is perhaps hard to believe that one man could have such an effect in a country of 1.1bn people, but there is no doubt that a visit to southern China early last year by Mr Deng Xiaoping, the country's supreme leader, in which he urged swifter growth, employing the simple slogan "Do it faster", has galvanised a

The "emperor" spoke and officials rushed to do his bidding, culminating in a frenzy of activity in the last quarter of 1992 in which more than \$30bn of contracts were signed. equivalent to figures for the

rest of an extraordinary year.
Among the more amazing statistics regarding foreign investment to bave emerged from China's ever-grinding sta-

## A bout of 'China fever' is sweeping through

tistical mill recently were those revealing that in 1992 alone 47,000 joint ventures, cooperative enterprises, and wholly owned foreign ventures were established, exceeding the total number of the previous 14 years.

In all, 100,000 enterprises with foreign involvement were registered by the end of the first quarter this year, most of them small businesses such as restaurants and hairdressing salons employing a handful of people each. Hong Kong and Macao investors are behind the bulk of these smaller busi-

But an emerging trend involves increased Japanese. Taiwanese, US, and South Korean investment in larger-scale projects. Japanese companies, which had proved reluctant in the 1980s to become involved in China, are now beginning to make more substantial investments. Taiwanese and South Korean groups, both late start-

ers, are following suit. By the end of 1992, Taiwanese businesses had signed contracts valued at \$8.5bn. Companies from South Korea, which formalised relations with China

much more is in the pipeline. "More large projects, whose average total investment stands at over scores of mil-lions of US dollars were set up in the first three months," Mr Yang Xiaogong, a spokesman for Moftec was quoted as saying this week by the official China Daily.

Of the actual direct as opposed to simply contractual - investment recorded by Moftec of about \$37bn to the end of 1992, Hong Kong and Macao head the table with a little more than 50 per cent, or an investment of \$21.2bn, followed by Japan with \$3.9bn, the US on \$3.2bn, Taiwan \$1.9bn and Germany \$471m, to name the top five.

Big increases in contracted investment were also recorded by Singapore and Thailand, a reflection of the growing involvement in China of wealthy overseas Chinese in those countries. Interestingly, investment is also beginning to trickle into China from Russia, eastern Europe and the Middle

Among factors fuelling the investment surge, apart from a bout of "China fever" that appears to be sweeping the international business community, is the relaxation of restrictions on investment in real estate. Overseas Chinese-controlled companies, espe-cially those based in Hong Kong, have been pouring funds into real estate projects in the hope of capitalising on huge projected demand for commercial and residential property. In Shanghai, for example,

the Municipal Investment Commission approved 750 new projects in the first three months of this year worth about \$1.8bn. About half this new investment will be channelled into property.

Local investors have also plunged into property development throughout China, especially in the southern regions like Guangdong and Fujian, in the expectation of riding a speculative wave; some of these local property developers may be in for a shock with the government squeezing credit to try to calm an overhested

Another factor driving the investment surge is China's embrace of build operatetransfer infrastructure projects such as those in the power sector. Hong Kong investors such as Mr Gordon Wu of Hopewell Holdings have been active in this area, no doubt encouraged by the bounty earned by early investors in Hong Kong utili-ties such as China Light and

The explosion of activity has contributed to an atmosphere in China somewhat akin to that of a gold rush, with businessmen and their overseas Chinese agents pouring in from all over the world, negoti-





## Germany's AEG sets its sights on vast railways potential

in Frankfurt

THERE are about 30 cities in China with more than 1m inhabitants; several forming the focus of conurbations which are home to up to 15m people. Only two and a bit -Beijing, Tianjin and Shanghai - have an underground rail-

Mr Klaus Oertel, the board member responsible for AEG's fast-growing rail systems division, does not even attempt a guess at the sales potential. He focuses instead on the steady devolution of centralised decision-making powers to regional and city authorities which is slowly opening China's infra-structure market to outside expertise and investment.

Four years after leading a German consortium into the fledgling Shanghai metro network with a DM350m (\$218m) start-up order for 96 under-ground carriages, power sup-ply, overhead line and telecommunications equipment, the Daimler-Benz subsidiary is on the verge of making its first direct investment in Chinese railways.

This month, during the opening of the first stretch of Metro Shanghai, Mr Oertel signed a letter of intent to take a major-

Works. With a stake of less than DM10m, and planned start-np capacity of one car-riage a week, the deal is a tiny which, Mr Oertel says, will step along what may prove to be a permanent way leading to an infrastructural Eldorado.

Like most German companies, AEG has been relatively slow and cautious in its entry into China. But Mr Oertel dispntes claims from the likes of trai government level in Bei-

Further articles on foreign investment in China will appear shortly on the World Trade News page. They will examine the involvement of companies from Hong Kong, Japan and Singapore and will profile the long-established Beijing Jeep plant owned by Chrysler.

Mr Hans-Joachim von Ludwig, a director of Alcatel SEL, a Franco-German telecommunications consortium, that Germany "seems to have lost track

of the opportunities". According to Mr von Ludwig, only 3 per cent of all German foreign direct investment last year was made in Asia, compared with Japan's 38 per cent.
Mr Oertel accepts that Germany, occupied with a European and domestic boom for most of the 1980s, was late to join the "travelling circus" search for low-wage manufac-

jing on the prospects of deals in the locomotive industry. AEG's plans, set up in-house by a group led by chairman Mr Georg Stocki, are part of a grand group design, overseen in Daimler's Stuttgart head-

Shanghai has opened only one

14km stretch of metro track in

require about 1,000 carriages

over 15 to 20 years. Meanwhile.

the company is discussing a

further joint venture with

Changchun Railcar Works, the

country's biggest rolling stock

maker, and is in talks at cen-

quarters. In a surge of activity, focused on what one Daimler official calls a "state" visit by Mr Gerhard Liener, the finance director, Daimler group companies have this year already signed or finished negotiating more than half a dozen projects in China Mr Liener

Shanghai Crane and Conveyor cerned with the future. So far Germany's biggest industrial concern will grace Shanghai's infant stock exchange by listing its shares there. This move. of more political than commercial importance, followed a flurry of successful diplomatic efforts by the Bonn government to further German interests in China.

AEG's Mr Oertel, too, has his own diplomatic contacts. Mr Zhu Rongii, a former mayor of Shanghal, was instrumental in the 1989 deal under which AEG and consortium partners Siemens and ABB won the main contracts for the first stretch of the city's underground. Mr Zhu is now a first vice premier of the state council in Beijing. But according to Mr Oertel,

the main factor qualifying AEG to win Chinese contracts is the quality and depth of its expertise in local rail trans-Another crucial element is the size and resources of its

snpporting parent. While Mr Oertel says he is not at all con-cerned about the possibility of damaging political upheaval in China, he acknowledges the risks inherent in investing in fast growing and febrile economies. "Anyone going into a developing market must be clear that while in the long run everything will work out, in

### last August, had initialled ating deals and signing conity stake in a joint venture to turing bases. the short-term someone has to recently capped the package But AEG is now more con-THE FINANCIAL TIMES Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 6000 Frankfurt am Main 1, Germany. Telephone 49 69 156 850, Faz 4969 9964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer; DYM Druck-Vertrieb und Marketing GmbH, Admiral-RosendahlStrasse Ja, 6078 Neu-Ismburg 4 (owned by Hurriyet International). Responsible Editor: Richard Lambert, o'n The Financial Times Limited, Number One Southwark Aridge, London SEI 9HL, UK, Sharsholders of the Financial Times (Europe) GmbH serv The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London, Sharsholders of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Aridge, London SEI 9HL. The Company is incorporated under the laws of England and Walex, Chairman: D.C.M. Bell. FFRANCE Many chins make light work of razor sales targets

By Nikki Tait in New York

FOR Gillette, the Boston-based razor manufacturer, China has switched from being a possibility to a reality in three years.

The groundwork was laid in the early 1980s. The US company entered mainland China ten years ago, via a small 50:50 joint venture, called Shenmei Daily Use Products. This operation was negotiated with the Chinese authorities in Lianning province, to the north-east of Bei-FRANCE
Publishing Director: J. Rolley, 166 Rue de Rivoli, F-75944 Paris Cedex 01.
Telephone (01) 4297-0621, Fax (01) 4297-0629, Fax (01) 4297-0629

It comprised an existing plant in Shenyang, which - with expertise from its US partner - has produced double-edge blades and razors under the Rhino brand name for a decade. Gillette says the venture has been consistently profitable, and "sells everything we can make". But it remains small: annual production is around 60m units, in a market which absorbs lbn units a year.

Mr Gaston Levy, head of Gillette's international group, says the northern location is not ideal. "It became a regional issue, but, as a pilot project, Shenmei did allow us to understand the Chinese mentality."

So, in about 1988, Gillette began to look at central and southern regions. The crushing of the pro-democracy movement in Tiananmen Square in 1989 caused the group to put plans on hold, but then it began talking to the authorities about setting up a joint venture with China's le blade manufacturer in Shanghai. Negotiations, spanning layers of

officialdom, took two years. Mr Levy remembers that his counterparts insisted on talking only after dinner. Typically, the Chinese would then retire, to discuss their bargaining position, in the early hours. When they returned, the US side would also politely bow, bold its own can-cus, and respond. By three or four o'clock, a negotiating point might be

resolved. This laborious process was, he thinks, an indication of the Chi-nese distrust of foreigners: "They're very, very careful – caution is much greater than anywhere else in the world."

But, last August, Gillette had a deal. A joint venture with the Shang-hai Razor Blade Factory was agreed, setting up a new company called Gil-lette Shanghai. Gillette obtained a 70 per cent share in the business and management control, while the Chinese retained 30 per cent. All of Shanghai's plant was taken over by the new company, and the joint ven-ture agreement called for "first phase" capital investment of \$60m. Gillette would find \$45m.

Today, about two-thirds of this money has been invested and the operation employs more than 1,000 people. Gillette, meanwhile, has seven expatriates - some of Chinese origin - working there. The business, says Mr Levy, is profitable.

The deal took Gillette's share of the domestic blade market from about 10 per cent to over 70 per cent. Mr Levy admits that China is not the most compelling of markets in terms of "shaving usage". The for-mer Soviet republics, for example, have a much higher "shaving fre-quency" and associated blade emand

But China's appeal is partly its sheer size - a population of I.1bn means a lot of blade sales, even if shaving is not ubiquitous - and partly the potential it offers for pushing more advanced products. At present, basic blades sell for the equivalent of three US cants. By nudging consumers towards more sophisticated shaving products, Gil-lette sees scope for initially doubling this, and eventually raising it five or six-fold. Already, the Shanghai plant

is being geared up for production of disposable razors. Mr Levy does not make light of

the problems. Language is an obvi-ous one, causing the US company to station interpreters on site. Market-ing is another. The joint venture is required to supply the Chinese government with a minimum number of blades for export, but can then sell its remaining output es it wishes. The operation had previously depended on the government pur-chasing network, but Gillette is try-

Shanghai area, says Mr Levy, this is still a tough task.

The much-feared overheating of the Chinese economy is a back-

ing to develop its own wholesale dis-tribution system. Outside of the

ground concern. "Inflation would worry us," says Mr Levy, noting that it has reached double-digit figures in Against these negative factors, there is the relative flexibility which

the Chinese system offers, and the deep-rooted commercialism of its people. Gillette is free to remit prof-

its if it wishes, and to choose how products are marketed and sold. Meanwhile, the much-vaunted "trad-ing mentality", in Mr Levy's eyes, differentiates China hugely from

parts of eastern Europe. Certainly, Gillette's commitment to China seems to be increasing. The company is now edging into the toothbrush busine Last month it set up a small joint

venture plant in Shanghai, employing under 100 people and producing Oral-B toothbrushes - both for sale in the Chinese domestic market and for export. Again, China does not look the most promising of markets: there is reckoned to be one dentist for every 77,000 people, and the "average" Chinese buys one toothbrush every four years. But the market is huge, and the government is anxious to improve healthcare. Demand for better-quality dental products, Gillette argues, can only





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Pinancial Times (Scandinavia) Ltd.
Vimmelskafted 42A, DK-1161
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## Chinese peasants riot over tax rises

By Tony Walker in Beijing

GROWING dissatisfaction amoog China's 800m peasants has spilled over into persistent and angry clashes with officials, including riota in Sichuan, the country's most populous province.

Provincial officials confirmed that crowds of peasants had earlier this month hesieged government headquarters in Renshou county, 80km south of Chengdu, the provincial capital, to protest over increases in taxes and charges to fund a local highway. Peasanta are reported

to have rampaged around the town, blocking traffic, assaulting officials and attacking vehicles. The disturbances took place hetween June 3

Police used teargas to break up angry mobs whose numbers are said to have ranged between a few hundred and as many as 10,000. A provincial government official in Chengdu confirmed that a riot had taken place, but he was reluctant to go into detail.

Western officials, who visited Renshou in the past few days. said they had noted evidence of trouble, including slogans daubed on walls denouncing local officials, but felt reports of mass disturbances were exaggerated.

The troubles in Sichuan are by no means an isolated incident, however. They demonstrate widespread dissatisfaction among China's peasant farmers who are being left behind in the country's economic boom as the gap widens between city and country.

Official statistics show that average per capita peasant annual income stands at Yn770 (£90) . This represents less than balf the average of urban dwellers.

Stories abound of clashes between mutinous peasants and the authorities. Among recent episodes are disruptions caused to rail traffic in central Henan province after a dispute over requisition land for rail crossings and protests in southern Guangdong province over compensation for land

seized by the state. also been assailing tax collectors, sometimes violently. The new militancy among peasants, dismayed at their inability to share the fruits of China's economic boom, may well prove the government's most serious challenge in years.

China's leaders have, belatedly, recognised the dangers. Mr Qiao Shi, a member of the politburo's ruling seven-memher standing committee, recently visited Sicbuan to urge better treatment of peasants hy local officials, who are heing hlamed for corruption and for extorting exceasive charges and levies.

China's official media bas been full of exhortations to officials to be more sensitive to the plight of the peasants. The central authorities have been releasing funds to redeem fOUs to farmers for grain acquired compulsorily by the state. Failure to honor these commitments has proved a principal cause of uprest.

The Public Security Ministry bas also issued an order to police to stop harassing peas-ants and imposing arhitrary

## Cambodia losers go back on their word

The ruling communists have refused to accept election results, writes Victor Mallet

F the United Nations fails in its the royalist opposition party Funcin-\$2bn missioo to hring peace and democracy to Cambodia, much of "massive irregularities" in the electhe hlame will be laid at the door of the Cambodian politicians who did the opposite of what they said they were going to.

The opening in Phnom Penh today of the Cambodian assembly, elected in UN-organised polls last month and charged with creating a new constitu-tion and forming a government, is overshadowed by continuing violence and threats of secession from the existing communist administration.

"We consider ourselves sports," Mr Hun Sen, the prime minister, had said before the election. "We are prepared to transfer everything to the winner." But when his Cambodian People's tion and refusing to recognise the results or hand over power.

Over the weekend the CPP has condoned the formation of an "autono-mous zone" of seven eastern provinces. CPP-organised demonstrators have threatened UN workers and Funcinpec officials and forced the UN and Funcinpec to evacuate their civilian staff from several provincial towns.

The secessionist movement, designed to press the UN and Funcinpec into meeting CPP demands, is led by senior CPP officials and has been greeted with little enthusiasm hy the

Other factions have also performed political somersaults in response to

The extreme left-wing Khmer Rouge, which withdrew from the peace process and attacked the election as a "cheating and dirty" means of legitimizing the Vietnamese-installed CPP government, is now loftily demanding in the name of democracy that the CPP yield to Funcinpec once a Khmer Rouge ally.

Funcinpec itself, having promised to hand executive power to the erratic elder statesman Prince Norodom Sihanouk if he woo the electioo, was appalled when he seized the initiative and attempted to form an interim government that gave the CPP equal weight with Funcinpec

Prince Ranariddh, Funcinpec leader and son of Prince Sihanouk, yesterday condemned the CPP secessionists as "renegades", demanded that the CPP

raised the spectre of a renewed ont-hreak of civil war.

"We are ready to set up our own forces to fight and liberate that part of Cambodia, and I hope we will be supported by the world community," he said. "We do have arms, weapons caches in those provinces."

In fact Funcinpec is almost finished as a military force, and Prince Ranariddh's other threat is likely to carry more weight. "I will travel around the world," he said, "to explain the real situation of Cambodia and ask them to clearly condemn the CPP and to freeze any aid and any support to those who are acting against the will of the Cambodian people."

Despite the animosity between the two largest parties in the assembly, the western and Asian backers of the 1991 Cambodian peace plan believe

THE LIFE presidency of one of

the world's most durable abso-

lute rulers goes on the line

today when Malawi votes on

Dr Kamuzu Hastings Banda

has run the tiny southern Afri-

since independence from

The nonagenarian Ngwazi.

(conqueror) - officially he is 87

hut is widely believed to be

equally confident that Mala-

his paternal autocracy. An opposition alliance is

that stability will be best served by a Funcinpec-CPP coalition, if only because the CPP has the only credible Cambodian military force apart from the Khmer Rouge guerrillas.

CPP support will also be needed for the passing of a new constitution in the assembly by a two thirds major-lty. UN officials and western diplomats are hoping that at least some CPP leaders, particularly in the armed forces, will refuse to risk further international isolation hy defying

Cambodia and its communist administration are broke, and soldiers are ofteo paid months late. One of the few bargaining chips held hy the UN Transitional Authority is Its plan to pay soldiers and civil servants some \$5m to \$7m a month until a recognised government is formed.

> da's old style of government. which critics say brooks no

> opposition on pain of detention

Westero donors who keep

eveo death, can survive.

the nation affoat are withhold-

ing all except humanitarian

assistance in protest against

human rights violations. Mala-

a sacked former minister .

Malawians vote

## Reduced support for Iran president

IRANIAN President Akhar Hashemi Rafsanjani won a secood four-year term yesterday with a reduced vote that underlined the waning popnlarity of the country's Islamic revolution. Reuter reports from Tehran. Bot Mr Rafsanjani saw the

result as a vote of confidence in his economic reform plans. That a considerable majority of people supported the pro-gramme is a great asset for me and my colleagues that would eocoorage ns to execute the rest of the programme with confidence," he said lo a mes-sage broadcast oo radio and

Diplomats deacribed the result and the low turnout as a near-humiliation which could severely limit the presideot's

anthority. Final results of Friday's poll. announced yesterday, gave the 58-year-old cleric 10.6m votes, or 63.2 per ceot of the vote, compared with 94.5 per cent in the 1989 election.

The turnont was 57.6 per ceot, showing that ecocomic hardship made many voters indifferent to calls from the ruling clergy for a mass display of faith in the 1979 revo-

wians have shown unprece-It meant that Mr Rafsanjani, dented resistance to the ruling running against three no-hope Malawi Congress Party (MCP) - rioting a year ago killed challengers, won endorsement about 40 people. Even the old president has from fewer that 11m of the 29m Iranjans eligible to vote.

appeared to acknowledge he The hig surprise was Mr Ahmad Tavakkoli, a former cannot go on as before. At one labour minister who now edits rally be conceded there was the economic section of Tehmore than one side to debate. ran'a right-wiog daily Resalat. The Alliance for Democracy His campaign attacks on eco-(Aford) is campaigning for a multi-party vote with the nomic mismanagement cap-United Democratic Front (UDF) led by Mr Bakili Muluzi, tnred 23.8 per cent of the

Diplomats said the weakened Mr Rafsanjani may oow be more reluctant to push through with efforts to curb radicals who continue to foment militancy at home and



Trade unionist Chakufwa Chihana, leader of the Alliance for Democracy (Aford), gives a victory salute to supporters as be is freed on Saturday after six months in a top security jail for sedition. The alliance is campaigning for a multi-party vote

## Nigerian election goes smoothly

By Paul Adams in Lagos

milltary government successfully staged elections for a civilian president on Saturday, after three delays in the last three years, hut turnout was low. Results are unlikely to he announced until tomorrow at the earlies

Among those who did not cast a vote were Mr Bashir Tofa, the presidential candi-date for the right-of-centre National Republican Convention (NRC), and his vice-presidential running mate, Mr Sylvester Ugoh, Mr Tofa arrived late at his local polling booth in the northern city of Kano, and found that his voter's registration card was out of

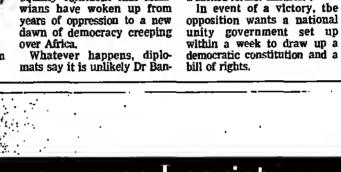
Under Nigerian law, a candidate is barred from winning the presidency if he is not registered to vote in these polls, hut the National Electoral Commission has already cleared both parties' candiMr Tofa's rival, Mr Moshood

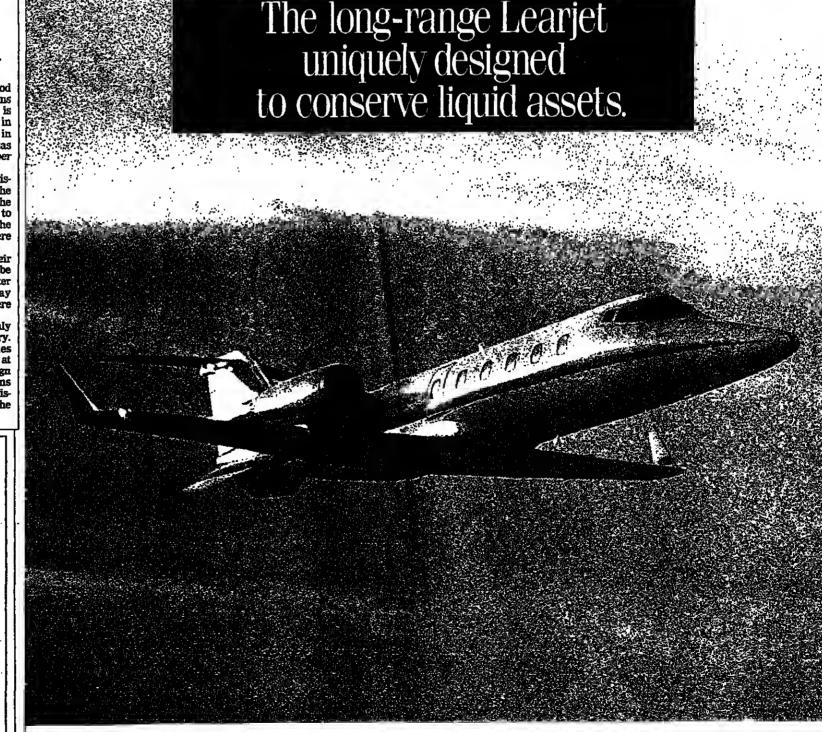
Ahiola, had no such problems at his polling station, which is in Moshood Ahiola Crescent in Lagos, but the turnout, even in such partisan territory, was about a third of the number registered to vote. Of the 38m who are regis

tered, disillusionment with the choice of candidates and the rigid voting schedule helped to keep voters away even in the urban areas where there were shorter travelling distances.

Everyone had to be at their polling station by 8am to be accredited and to remain after voting until about midday when the ballot papers were

Polling passed off smoothly in most parts of the country. The agents of both parties were able to check the count at each level. One of the foreign observers at these elections will be at the electoral commission headquarters to watch the





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French bank

reform backed

THE French National Assembly has approved the Balladur government's proposals to reform the statutes of the Bank of France so it can become an independent central bank in keeping

with the terms of the Maastricht treaty, Alice Rawsthorn with

Despite opposition from hardliners in the Socialist opposition and from Gaullist nationalists within the centre-right coalition

government, the National Assembly voted to accept the proposed

government, the National Assembly voted to accept the proposed reforms by an overwhelming majority.

Mr Edmond Alphandéry, economy minister, will on Wednesday present the final proposals for the new Bank of France legislation to the council of ministers. Under the new law the term of office

of the governor and two deputy governors of the bank will last for six years and can be renewed once.

Mints cash in on gold coins

NEWS IN BRIEF

## Trade seen as key for Clinton

BIG business in the US is worried about President Clinton's slide in popularity hut is pinning its hopes of a revival on a breakthrough in the Gatt world trade talks next month, according to Mr John Sculley. chairman and chief executive of Apple Computer.

Mr Sculley said an agreement on market access between the US, Japan, Canada and the EC at next month's Group of Seven summit in Tokyo would give an impor-

the world economy, strength-ening Mr Clinton's chances of securing congressional support

for his tax package.

A confident of Mr Clinton,
Mr Sculley added these two successes would leave the president able to take on ratifica-tion of the North American Free Trade Agreement with Mexico and Canada: "Then you will see his popularity increas-ing dramatically in September and October."

Mr Sculley offered his assessment of the US and European political scene during a wideranging interview last week in

Brussels, where he was attend-ing a meeting of the Transatgroup of industrialists and parliamentarians dedicated to improving transatlantic rela-

In the interview, Mr Sculley described Mr Jacques Delors, president of the European Commission, as a "true visionary" in his drive to create the European single market. Now he was the ideal figure to carry a new message: that the EC bad to move from the "old economy" to a new, high skills, information intensive economy

dependent on increasing productivity.

Higher productivity did not mean fewer jobs, he said. Rather the aim should be to raise productivity through economic expansion by means of greater market access. Mr Sculley was equivocal about the EC's plans for a sin-

gle currency. He criticised high German interest rates as "a misplaced policy", adding that it was unfortunate thet all of Europe is having to pay for the assimi-lation of East Germany into West Germany".

drew a distinction between Japan and the EC, noting that the US-European relationship had largely been trouble-free in the context of the overall trade

On Japan, Mr Sculley strongly defended the administration's tough approach.
Although he rejected the term
"managed trade", he suggested that some numerical measure of market access was justified. "However you get there, the US can't go on year after year with a huge bilateral imbal-



Sculley: defended US approach

## **EC** hopes Bonn row will fade

By Llonel Barber

THE European Commission is counting on quiet diplomacy to head off a damaging dispute with Germany after disclosure of a secret non-aggression pact on telecommunications between the Bonn government and the US.

EC officials believe the bilateral understanding forswearing trade sanctions was struck hy the Economics Ministry without the knowledge of the German Foreign Ministry.

Sir Leon Brittan, EC commissioner for external economic relations, has asked Bonn for an explanation and Brussels officials yesterday described the German move as a direct challenge to the single European market, and said it could jeopardise EC unity In the Gatt trade talks. "If the German government

sticks to its position, it is a very serious matter," said a senior EC official, referring to the political damage ahead of next week's EC summit in

Copenhagen.
The understanding on telecommunications and other service industries was reached between Mr Günter Rexrodt, federal economics minister, and Mr Mickey Kantor, US trade representative, apparently in the margins of this month's annual meeting of the Organisation of Economic Co-operation and Development. Mr Rexrodt indicated that Germany would not pass into law

Article 29 of the EC's Utilities Directive which gives a 3 per cent price preference for EC

Mr Rexrodt also pledged not to apply discriminatory trade sanctions against the US which earlier imposed a ban on blds from EC companies for \$19m worth of public procurement contracts, in protest against Article 29's restrictive provi-

The German move challenges the decision by 12 EC foreign ministers to impose a \$15m sanctions package in retaliation against the US on June 8 in Luxembourg. It seems to contravene the Treaty of Rome which awards sole competence in trade policy to the European Commission.

Last Friday, the German Economics Ministry defended its moves, declaring that Germany was bound hy a 1954 friendship treaty with the US which forbids trade discrimination. It also insisted that the Utilities Directive was drafted deliberately loosely, so that the EC "may apply Community preference" and that any agreement was "not withstanding existing commitments to

third countries". EC officials bope that Mr Rexrodt will come under pressure from colleagues, nervous about the political reaction.

Diplomats in Brussels noted, bowever, that the German government has become much more assertive in its defence of free trade principles recently.

Seven of the world's mints are hoping to cash in on reviving seven of the world's minus are hoping to cash in on reviving consumer interest in gold coins following the recent rally in the gold market. David Blackwell reports from Istanbul.

The World Gold Council, trade association of the gold mining industry – revealed at the weekend that world sales of the five leading gold bullion coins on the international market rose by 56 per cent in April and May to 270,892 troy ounces, compared with

## world advertising campaign starting in the Financial Times on Monday for the Australian kangaroo nugget, Austria'a Vienna philharmonic, Canada's maple leaf, Mexico's libertad, South Africa's krugenand, the UK Britannia and the US eagle. Jailed westerners in Baghdad

the same period last year.

Foreigners visiting westerners detained by Iraq confirm that a Briton and a German sentenced to eight years in prison for illegal entry are now in a Baghdad jail, diplomats said yesterday Reuter reports from Baghdad.

The council and the mints are spending \$6m on a co-ordinated

They said the Briton, Simon Dunn, 23, and the German, Kai-Sondermann, were in Abu Ghraib prison on the western outskirts of Baghdad where other foreigners charged with similar offences are serving their sentences. The two men were arrested at gunpoint on May 28 and had been sentenced to eight years in jall on June 6 for illegal entry, a Foreign Office spokeswoman has said. Their imprisonment brings to six the number of Kuwait-based expatriates jailed by Iraq this year for illegal entry.

#### Israel approves free trade zone

Israel's cabinet yesterday approved plans to establish a private sector free trade zone to stimulate foreign investment and create jobs, Julian Ozanne writes from Jerusalem. Investors in the zone, to be sited either in the Galilee or the Negev desert, will be granted a 20-year income tax holiday and indefinite exemption from customs duties and import-taxes,

Mr Avraham Shochat, finance minister, promised that the free trade zone, the country's first, will create thousands of jobs for an economy with an unemployment rate of 10.6 per cent.

The finance minister also said yesterday that the scheme was designed particularly to attract US and other foreign companies which have complained about excessive bureaucratic red-tape for new foreign investors in Israel.

#### Egyptian extremist hanged

A Moslem extremist convicted of terrorist attacks and trying to overthrow the Egyptian government was langed yesterday, the first execution among 22 militants sentenced to death by military courts, AP reports from Cairo.

An Egyptian convicted of spying for Israel was also hanged, said a military official who declined to be further identified. Last year, President Hosni Mubarak started referring Moslem extremists to military courts to ensure speedy trials. The government has been involved in a violent confrontation with the radicals who want to turn Egypt into an Iranian-type theocracy. Over 150 people have been killed since 1992.

### 'Rattle Pepsi can before sipping'

The president of a regional Pepsi bottler urged cola drinkers to rattle their cans before taking a sip after a second can of Diet Pepsi was found to contain a hypodermic needle, touching off a federal criminal probe, Reuter reports from Seattle

Mr Carl Behnke, president of the regional Pepsi bottler Alpac, said that preliminary Food and Drug Administration (FDA) laboratory tests revealed no contamination but urged consumers to inspect soda cans carefully.

Mr Behnke said the FDA had not advised it to recall its products, but it had opened a free consumer hotline.

## US, Japan fail to bridge gap in trade talks

By Michiyo Nakamoto in Tokyo

TWO days of talks between the US and Japan, which ended in Washington on Saturday, failed to narrow the gap between the two sides on a framework for bilateral trade negotiations and in particular on how Japan's buge trade surplus might be reduced.

The talks were the first round of formal exchanges between US and Japanese officials aimed at formulating a framework for negotiating economic and trade issues, which was agreed between President Bill Clinton and Mr Kiichi Miyazawa, the Japanese prime minister, in April.

The inconclusive nature of the talks leaves the possibility of further uncertainty on the foreign exchange market where US unhappiness with Japan's surplus and the lack of a clear Japanese strategy for reducing it bave led to the rapid appreciation of the yen against the dollar.

Although details bave not been revealed, on the first day of talks the US is believed to have urged Japan to accept its proposal to set a target of reducing its current account surplus to within 1-2 per cent of GDP development and increase the ratio of imports to

Japanese officials, bowever, are expected to have rejected

SOLDIERS allowed several thousand

people in the western port of St Marc to march over the weekend in protest

at the 1991 ousting of President Jean-

Bertrand Aristide, AP reports from

The march, an unusual act of toler-

ance, was one of several signs of

growing support for the reinstatement

Port-au-Prince.

that on the grounds that the surplus and its import ratio are both the result of economic activity over which they do not, as members of a free market economy, have control.

The US and Japan are committed to agreeing ground rules and procedures for the talks before the Group of Seven summit early next month. However, the two sides are still far apart on their views of what lies behind

Japan's high trade surplus. The US believes the closed nature of Japan's markets is a main reason for the surplus and would like to set measurable indicators of progress to ensure that Japan opens its markets to imports.

Japan, on the other hand, insists that it has one of the most open markets in the world and emphasises the imbalances of investment and savings in the two countries as being a big factor behind its surplus.

It believes more long-term measures are needed on both sides to reduce its surplus with the rest of the world.

On the second day of the talks, the US and Japan were, bowever, able to agree on global co-operation in issues such as environmental protection and technology transfer. The talks are expected to resume in Tokyo in the last

of Mr Aristide, Haiti's first democrati-

cally elected president. Pro-Aristide

and anti-army demonstrations bave

routinely been crushed by soldiers

Haiti's husiness associations met to

draft a declaration urging Aristide's

In the capital, the presidents of

week of this month.

since the coup.

## Mondale faces testing time on Tokyo mission

The draft called on parliament to recognise the exiled president's legiti-

macy and to approve an Aristide-

designated prime minister to bead a

new government. In exchange, it

asked Aristide to grant a general

amnesty to coup leaders and endorse

all laws passed by parliament since be

MR Walter Mondale, the former US vice-president pictured above with President Bill Clinton, will arrive in Japan as US ambassador at a time when relations are strained by trade tensions and plagued by cultural miscues, AP reports from Tokyo. Mr Clinton formally proposed Mr Mondale as envoy last week. The tenure of outgoing

Ambassador Michael Arma-

was ousted.

coincided with a distinct chilling of sentiment on both sides of the Pacific. Japanese critics dubbed Mr Armacost "Gaiatsusan" - Mr Foreign Pressure -for his frequent criticism of government policy. Some believe Mr Mondale's

cost, who arrived in 1989, has

appointment could set a new tone; the choice of a former vice-president as ambassador is seen as a sign of respect.

#### Soldiers allow Haiti protest in support of Aristide The army high command backs the tant churches in the city 60 miles to proposal, according to a businessman

close to senior officers. A consensus for Aristide's reinstatement is also building among legislators. The National Assembly was due to convene today to begin working out a solution.

The march was organised by Protes-

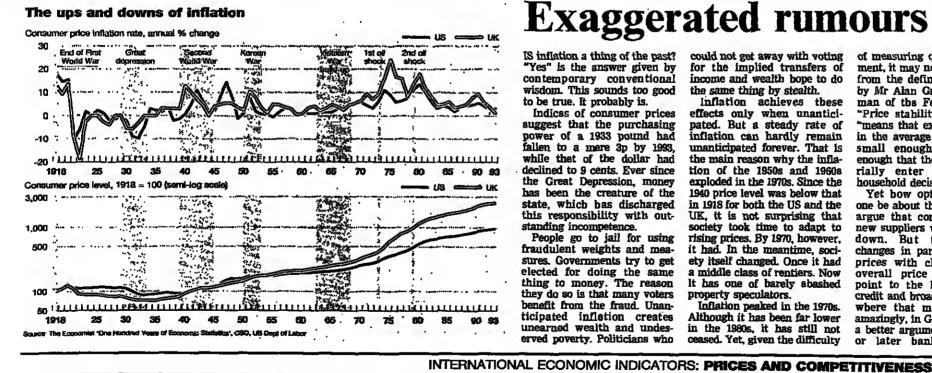
the north of Port-au-Prince. It has been the middle class, which supported the coup, that has grown increasingly frustrated with the failure of military-backed governments to

find a way out of the crisis resulting

from international economic sanc-

## Exaggerated rumours of inflation's death

tions imposed after the coup.



IS inflation a thing of the past?
"Yes" is the answer given by contemporary conventional wisdom. This sounds too good to be true. It probably is. Indicas of consumer prices

suggest that the purchasing power of a 1933 pound had fallen to a mere 3p by 1993, while that of the dollar had declined to 9 cents. Ever since the Great Depression, money has been the creature of the state, which bas discharged this responsibility with outstanding incompetence.

People go to jail for using fraudulent weights and measures. Governments try to get elected for doing the same thing to money. The reason they do so is that many voters benefit from the fraud. Unanticipated inflation creates unearned wealth and undeserved poverty. Politicians who

could not get away with voting for the implied transfers of income and wealth bope to do the same thing by stealth.

Inflation achieves these effects only when unanticipated. But a steady rate of inflation can hardly remain unanticipated forever. That is the main reason why the inflation of the 1950s and 1960s exploded in the 1970s. Since the 1940 price level was below that in 1918 for both the US and the UK, it is not surprising that society took time to adapt to rising prices. By 1970, however, it had. In the meantime, society itself changed. Once it had a middle class of rentiers. Now it has one of barely abashed property speculators

Inflation peaked in the 1970s. Although it has been far lower in the 1980s, it has still not ceased. Yet, given the difficulty of measuring quality improve-ment, it may not be all that far from the definition advanced by Mr Alan Greenspan, chairman of the Federal Reserve. "Price stability," he argued. "means that expected changes in the average price level are small enough and gradual enough that they do not materially enter business and

household decisions". Yet bow optimistic should one be about the future? Some argue that competition from new suppliers will keep prices down. But this confuses changes in particular relative prices with changes in the overall price level. Others point to the low growth of credit and broad money everywhere that matters, except, amazingly, in Germany. This is a better argument, but sooner

or later banks will have

may take several more years. A more cogent argument for optimism is that the benefits of inflation to policymakers are now small, its victims are better able to protect themselves and its beneficiaries are also politically weaker. Pensioners, for example, are too important a lobby to ignore. Meanwhile, potential victims either lend short or demand high long-term nominal interest rates in relation to current inflation. Policymakers know

restored their capital base and

borrowers will have regained

their courage, even though this

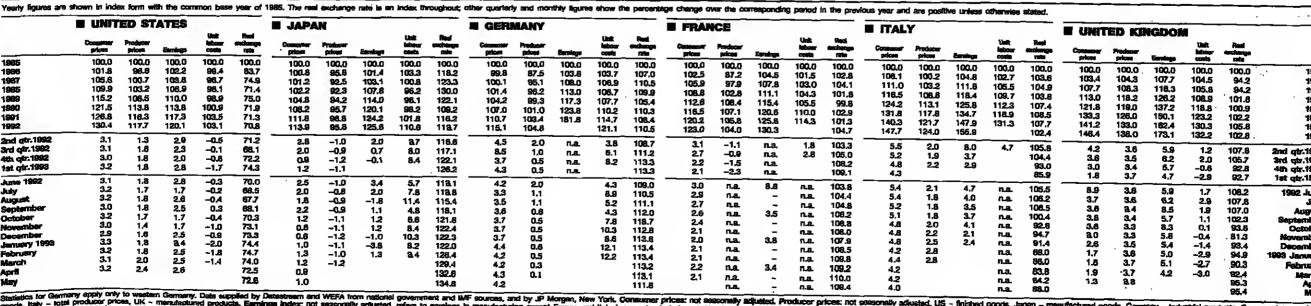
trols, face immediate penalties if they are condemned. Nevertheless, there are also four good reasons for fearing that high inflation might be back one day. First, managed

they are permanently on trial

and, lacking exchange con-

money has never delivered stable prices, or even stable low inflation, over a long period. Second, each year of relatively modest inflation lulls the pubhic further, thereby increasing the redistributive effects of another hurst of inflation: Third, there are plenty of debtors around who would adore higher prices. Finally, amongst those debtors are almost all major governments, whose accounts are bleeding red ink. The abolition of exchange controls may make it costly for a country to choose inflation on its own. But there is always the alternative of global inflation, no doubt euphemistically labelled "concerted reflation". Buyers of long-dated conventional bonds, remember and

**Martin Wolf** 



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Gent

## Turkey's first woman PM must reforge party image

By John Murray Brown In Ankara

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MRS Tansu Çiller, a former economy minister, is to be pre-dominantly Moslem Turkey's first woman prime minister after being elected leader of the largest party in parliament

Mrs Ciller, a 47-year-old academic economist better known for the fact that ber busband took her maiden name, won 574 votes in the True Path party's leadership race, just 11 short of an absolute majority of those eligible to vote - on the first ballot. Interior minister Ismet Sezgin, with 320 votes,

#### Premier faces urgent policy agenda – from inflation to the rebelling Kurds

and education minister Koksal Toptan, with 212, then withdrew their candidacy. She will be sworn in today.

A welcome foil to the drab, grey-suited male politicians of Turkey's mainstream, Mrs Ciller will have to reforge the party's image in the wake of Mr Suleyman Demirel's move in the presidency, which led to yesterday's leadership contest.

Party strengths in parlia-ment are finely balanced. Her first task will be to choose a cabinet in coalition with the iunior partners Social Democratic Populists (SHP) after the announcement that Mr Erdal lnonu, SHP leader, would

stand down in September. Written off by many commentators when she was first elected to cabinet in 1991, Mrs

better chance for re-election, rather than the respected but uninspiring Mr Sezgin, her

main challenger.

Mrs Ciller faces the difficult task of rebuilding the party ahead of vital municipal elections next year. A ataunch European who apeaks good English and German, Mrs Ciller is likely to accelerate Turkey's economic convergence with the European Community. She is expected to speed up the privatisation of state enterprises, which lose an estimated \$2bn (£1.2bn) a year.

Her anti-inflation policy has proven more controversial and brought her near to open conflict with Mr Rusdu Saracoglu, the central bank governor. Mr Saracogin's future must now

Mrs Ciller has cut a curious figure in ber Chanel suits assiduously courting the par-ty's predominantly Moalem constituents with claims that the call to prayer makes her

Addressing the congress of 1,169 DYP delegates, Mrs Ciller promised yesterday she would visit Germany in the wake of right-wing attacks on Turkish families in a number of German cities - another gesture in rural supporters.

She faces an urgent policy agenda - from annual inflation, which is running at more than 60 per cent, and the bloody Kurdish rebellion on the domestic front to an arc of foreign policy concerns from the Caucasus, north Iraq and the Balkans.

During 20 months as chief economics minister she has overseen a radical trade reform, moving the country back on track for full customs union with the European Community in 1995. Following legislative changes the stock

the vote this weekend, the index bad reached a record

She has had mixed fortunes in ber anti-inflation policy centred on restructuring the government's domestic debt, which has put downward pres-sure on interest rates. Debt service, at about 40 per cent of recurrent budget expenditures, fuelled the public sector's borrowing requirement, running at close to 12 per cent of gross

Mrs Ciller first came to attention when commissioned

Association to produce a report

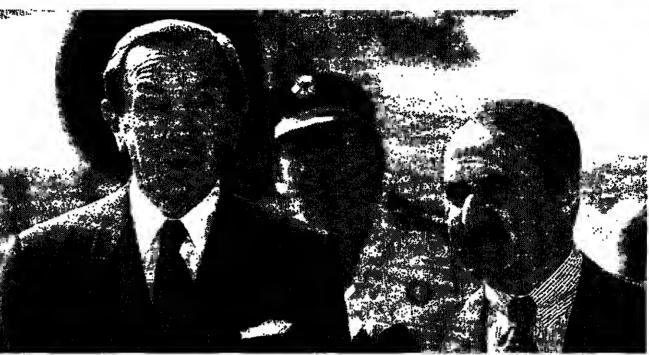
whose accession to the presidency created this leadership

on Turkey's debt during the former Motharland party administration. Her findings were so critical it brought the association into direct conflict with then prime minister, Mr Turgut Ozal. She will want to keep her distance from Mr Demirel,

Mr Demirel for his part will want to counter the impression that be opposed Mrs Ciller's



Tansn Ciller: will want to keep distance from Demirel



THE US is to sell belicopters to Turkey and transfer 50 A-10 tank buster aircraft in a \$356m (£231.1m) package unveiled in Ankara over the weekend by Mr Warren Christopher, US secretary of state (plctured left with his Turkish counterpart, Mr Hikmet Cetin). The deal, which exchanga has enjoyed a includes the purchase of five Super-Cobra

attack helicopters, gets around a US congressional move last year to cnt US military aid to Turkey and Greece and Portugal, other sonthern flank Nato members, under which grants were changed to credlts, writes John Murray Brown.

Until this year Turkey was the third largest recipient of US military aid after

Israel and Egypt, receiving about \$500m annually under the US foreign military sales programme, most of which was used in Turkey's F-16 fighter aircraft manufacturing project.

Mr Christopher said the Clinton admin-Istration would seek congressional approval for the latest sales.

## Mediators step up Bosnian peace initiative

LORD Owen and Mr Thorvald Stoltenberg, the international mediators, met Bosnian President Alija Izetbegovic in Geneva yesterday as part of recewed diplomatic efforts to end the slaughter in the former Yugoslav republic, agencies

report.
The talka coincided with reports that Serb rockets flattened a temporary bospital, killing more than 50 patients and medical staff, in the block-aded east Bosnian Moslem enclave of Gorazde.

The death toll, if indepeniently confirmed, would be one of the worst in a single incident in the 14-month war hetween Bosnia's Moslem, Croat and Serb communities.

Officials of the Moslem-led Bosnian government said it bad urged Mr Izetbegovic to return bome immediately from Geneva to underline the gravity of the crisis in the enclave. The talks, a day after the mediators met Croat leaders,

focused on the growing conflict between the Moslem-led gov-ernment and its former Croat

Lord Owen said that one of the main aims of the talks was to alleviate fighting between Moslems and Croats "but the essential task is still the overall peace settlement".

Shortly after the discussions, Moslem. Croat and Serb members of Bosnia's presidency gathered at the UN's European headquarters for a special session to discuss temporary power-sharing arrangements.

Lord Owen wanted the presi-

dency - comprising President Izetbegovic and two other Moslem representatives, two Croats and two Serbs - in consider delegating more anthority to a so-called co-ordinating body as a prelude to an interim

Late yesterday Sarajevo radio, monitored by the BBC, said the presidency had ordered an immediate end to fighting between its forces and

The radio quoted the presi-dency order as saying: "All conflicts between units of the army of Bosnia-Hercegovina and the formations of the Croatian defence council must stop immediately." It added that Moslem-led government army commander Rasim Delic and Bosnian Croat army chief Milivoj Petkovic would be responsible for implementing

UN commanders called a meeting of Serh, Croat and Moalem army chiefs to take place at Sarajevo airport tomorrow to discuss a lasting

Lord Owen and Mr Stolten-berg bope to gather leaders of all the Bosnian factions, as well as Serb President Slobodan Milosevic and Croatian President Franjo Tudjman, for talks in Geneva on Wednesday.

From the battlefront, Sarajevo's Moslem-controlled radio said there were no survivors of the direct hit on the temporary bospital building in Gorazde and added: "Pieces of human bodies are mixed with cement, broken boards, bricks and mor-

Fifteen people were reported killed yesterday before the bos-pital was hit,

About 60,000 inhabitants and refugees are trapped in Gorazde, which Serbs are attacking in defiance of its designation as a UN safe area.

Meanwhile, Sarajevo had one of its worst bouts of shelling in weeks as gunners around the city ignored a warning by the commander of UN troops in Bosnia that the country was sliding towards anarchy.

On Saturday General Phil-lppe Morillon threatened to pull out the 9,000-strong UN Protection Force under bis command if local political and military leaders did not commit themselves firmly to the faltering peace process.

## General Motors warns VW over Spanish plant

By Christopher Parkes in Frankfurt

GENERAL MOTORS of the US has warned Volkswagen of further legal sction if it goes ahead with plans for a revolutionary ultra-low-cost car pro-duction plant in Spain.

A letter delivered at the weekend to Mr Ferdinand Piệch, chairman of the German group, said a "similar" project was prepared by Mr José Ignacio Lopez de Arriortúa while be was still employed by General Motors.

The warning was sent as Mr Lopez prepared to hold his first press conferences since he defected from the US group to VW in March. In two appearances today, in Hanover and later in Madrid, Mr Lopez is expected to announce that Volkswagen will build a new super-lean production plant in his Basque bomeland, where cars can be built in less than half the time needed in the average European factory.

Last week Seat, VWa Spanisb subsidiary, said "some especially interesting" propos-

regional authorities. The GM letter represents a further step in the US group's campaign against Mr Lopez, which is focused on charges, now under investigation by public prosecutors in Germany, that be and several of his associates took top secret industrial, model and marketing plans with them when they went to VW.

While still at GM, Mr Lopez shrouded his proposals for the so-called Plateau 6 works in secrecy. Numbered copies of all plans, including draft factory drawings and car model designs, are still in the possession of the US group's top exec-

Mr Lopez campaigned fiercely at GM for his Plateau 6 plant to be built in his homeland, where he retains strong political connections. The US group's refusal to comply, and its preference for any future investments to be made in eastern Europe where costs are below those in the European Community, are understood to be the main reasons for his

stormy departure from Detroit in March.

The Plateau 6 concept is aimed at improving production efficiency beyond the levels achieved by Japanese manufacturers. The proposals include plans for component suppliers to sbip complete modules rather than single parts into the works where their employees would install them in vebicles. Other concepts include a wide range of differential pay rates for car assembly staff, breaking with the standard practice of paying all line operators the same basic

Last month GM suffered its first important loss in its legal

battle against VW.

An initial attempt to prevent seven former employees of GM and Adam Opel, the US group's German subsidiary, from working for VW for 12 months was thrown out by a Frankfurt

The seven included former top members of Mr Lopez's buying team at GM, who left the US shortly after their struccest confidence. Box No. 2032.

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## Tough Yeltsin line on Kuriles

By Leyla Boulton in Moscow

PRESIDENT Boris Yeltsin has told Japanese hosts of next month's Group of Seven summit not to expect any concessions on the four Kurile Islands they want back from

In comments which are likely to be seen by Tokyo as insulting, he said on Saturday he felt "a certain discomfort" as there would be a meeting with Mr Kiichi Miyazawa, Japan's prime minister, and the question of the islands would come up. "I will not be able to tell him anything new."

Mr Yeltsin, who is expected to discuss aid for Russian ecunomic reforms with G7 leaders in Tokyo, is also likely to touch on bilateral issues in talks with Mr Miyazawa.

The trip next month follows the last-minute cancellation of a bilateral visit last autumn and confusing signals shout whether he planned a separate visit after the summit.

It has also emerged that the Shadowy security council. which last year took the decision to cancel the presidential visit in Tokyo, is to be headed by Marshal Yevgeny Shaposhnikov, previously head of the Commonwealth of Independent States' unified command.

The council is a committee of senior officials that deals with foreign and some domestic affairs, in addition to secu-

Mr Yeltsin said he had appointed the marshal without consulting other commonwealth states because their plans to set up their own armies meant the unified command no longer had "much weight". The marshal was chosen for his military background and because Mr Yeltsin had "absolute faith" in him, unlika his predecessor, Mr Yuri Skokov, sacked for disloy-

Dealing with diplomacy closer to home, Mr Yeltsin said he would meet Ukrainian President Leonid Kravchuk on Thursday to discuss problems of fuel supplies to Ukraine and the row over the Black Sea Fleet. "We had to turn the tap off [energy supplies], then immediately there was this fuss over the Black Sea Fleet," he said. Moscow could not go on "giving away energy" to Ukrainian enterprises which were not paying their bills.

## Azerbaijan turns to old guard

MR Geidar Aliyev, former Communist party boss in Azerbaijan, was set yesterday to sweep back into power on the coat-tails of nationalist democracy's failings, writes Leyla

The protege of former Kremlin leader Leonld Brezhnev was offered the powerful post of parliamentary chairman after Mr Isa Gambarov, one of the leaders of the anti-Commnnist Popular Front, said he was resigning for the sake of "civic accord" Mr Aliyev, 70, was invited

back to the capital Baku after an uprising launched by one of his supporters in Gyandzha, Azerbaijan's second largest city. The leader of the insurrection, Mr Suret Guseinov, who is holding government officials hostage, has called for the resignation of President Abulfaz Elchibey, who sacked him from his military command in the disputed Nagorno-Karabakh region earlier this year.

Meanwhile, Azerbaijan switches fully to its own currency - the manat - tomorrow, according to a presiden-

## Cabinet rifts open on tax and spending

By Ralph Atkins

CABINET rifts over government tax and spending policles opened yesterday as Mr Michael Heseltine raised the spectre of Tory manifesto promises becoming casualties of the battle to control public borrowing.

As senior Tories sought to brush off further falls in opin-ion polls, the trade and industry secretary clashed with right-wing Cahinet ministers who made clear their oppositioo to reneging oo the Conservative's 1992 election pledge not to increase income tax.

The row preceded Thursday's public spending Cabinet when Mr Kenneth Clarke,

leagues that public spending cannot breach the £253.6hn ceiling set for the 1994-95 financial year. Mr Clarke will tomorrow break with recent tradition and use the Mansion House speech in the City - his first speech as chancellor - for a wide-ranging review of eco-

nomic policy.

A damaging split over tax and spending priorities, likely to continue over the summer as the Treasury struggles to curh departmental hudgets, will add to the difficulties Mr John Major faces in restoring confidence in his leadership.

in a interview yesterday, the prime minister said he was "philosophically attracted to

chancellor, will tell his col- the lowest possible level of taxation." But he was not prepared to prejudge November's

> Mr Major faces the ignominy today of a review hy the rightwing 92 group of Tory back-benchers of Conservative party prospects. Their message, although coated in language supportive of the prime minister, is expected to make plain that in their eyes he is on pro-

Senior figures on the Tory right confirmed yesterday that Mr Clarke, although pro-European, could win their support in a future Conservative leadership election if he successfully cuts state spending rather than increasing taxes.

Most Tory MPs believe, howlenge is highly unlikely this vear. But few - including the prime minister bimself in his Mail on Sunday newspaper interview - are prepared to rule out e contest before the general election.

An earlier test will be the Christchnrch hy-election, where the Tories are defending a 23,000 majority. Late July, just before the Commons' rises for the summer recess, emerged at the weekend as the most likely date.

Speaking on BBC television, Mr Heseltine expected \*turbulence ahead" for the govern-ment and predicted the economy, schools testing and policy

He said that Britain was livthere is a manifesto con ment which blocks off the options, and if you then say

ing "beyond its means" with "an infrastructure of entitlement and opportunity" way beyond the nation's ability to pay. Asked about income tax rises, Mr Heseltine said the chancellor had to "re-visit" all options for tackling the deficit, but added: "You will find in practically every case that

fine, we've made a manifesto commitment, all the options are blocked off, well I tell you it won't be a £50hn deficit we're dealing with next year, it will be a bigger one."

to name them.

included some substantial UK companies, though it declined It also refused to comment on its bid for DVOIT, because it has signed a confidentiality agreement with the govern ment. The question remains of whether it would want to employ all of DVOIT's staff or keep its mainframe computers.

DVDIT based in Swansea has 500 employees and three mainframe computers, which can be accessed from 4,000 terminals in 200 offices throughout the UK. The Department of Transport said it boped to comround-the-clock cover. plete the privatisation of

> Lessons should be learned and action taken "to make sure either it can't happen again or to make sure the risk is managed more tightly", said Esso.

> as security advisers and many have contracted out their security. While many companies are reluctant to talk about their arrangements, British

## Tory manifesto promises could become casualties of battle to control state borrowing | Terror attacks highlight problems for industry

Chris Tighe and Deborah Hargreaves on plant security

THE IRA bomb attacks last week in north-east England on a Gateshead gasholder and an Esso petrol and oil terminal in North Shields have highlighted the security problems terrorism poses for the owners of industrial installations.

Such complexes offer terrorists an economic target, presenting the opportunity for dramatic, publiclty-generating damage and serious disruption to business interests.

After last Wednesday's explosion and fire, caused by an IRA attack at Tyneside's largest gasholder complex, Mr James Marris, chairman of British Gas Northern, admitted it was impossible to achieve total security at such a compound. "I don't think we can stop anybody getting into any of these sites. A determined intruder can get in almost anywhere. The main thing is to detect it quickly enough to do

something about it."
Esso, whose North Shields terminal has been attacked by the IRA twice in seven weeks, refused to discuss its security arrangements at the site, apart from confirming that it had

Esso stressing the vast acreage of land covered by installations such as oil refineries and petrochemical complexes, endorsed Mr Marris' comments; "He is expressing the views of everybody who is involved in running industrial complexes which have an element of risk about their operations or products.

Most oil companies employ former police and army officers



week: such installations offer terrorists an economic target

Petroleum said the recent bombs had led to the tighten-

ing of security. The three gasholders on the Gateshead site attacked last Wednesday have a total capacity of 7.7m cu ft of gas. The compound is near homes and 400 people were evacuated for five hours following the explosion and fire.

But Mr Marris insisted that gasholders, which resisted wartime bombing, were "inherently safe structures". The gas in the holders would not explode unless it was mixed with air and the their structure made that unlikely to happen.

British Gas has fallen vic-tim to four IRA bombs -the recent Warrington bombing and two sites in London in tha 1980s. "It looks pretty dramatic, which is why they target them, but the chances of someone being injured are pretty slim," the company said.

North-east England's good road infrastructure is normally cited as an attraction for inward investors but it is becoming evident that it is also a honus for terrorists. Nortbumhria police last week noted the proximity to fast roads of the sites on Tyneside targeted by the IRA.

The police declined to comment on speculation that an IRA cell might have been set up in the region. Newcastle University politics lecturer, Mr David George, a terrorism spe-cialist, believes that targeting north-east England, along with the north-west and London belps the IRA promote its image of omnipotence.

They want to show the IRA has a very long arm," be said. One of the notable features of the region, which has 350 foreign-owned plants, is its strength in securing inward investment

But Mr George warned management at these workplaces, well as the operators of high-risk sites handling volatile substances, to beware of

## Nadir acts his trustee

By Andrew Jack

against

MR ASIL NADIR, the fugitive businessman, has attempted to revoke the power of attorney which he gave to his trustee in

bankruptcy Mr Neil Cooper, the trustee from accountacts Robson Rhodes, confirmed yesterday that he had received a letter in Turkish and English signed by Mr Nadir on Friday. The letter withdrew Mr Cooper's right to act on behalf of Mr Nadir.

If Mr Nadir's revocation is accepted, it will further threateo attempts by the trustee to keep control of assets in Turkey on behalf of creditors, and could also prove politically embarrassing for the Turkish government, which has been in talks with the Serious Fraud Diffice and the Britisb authorities about the former head of Polly Peck International.

The action comes just in advance of Tuesday's preliminary hearing at the Dld Bailey on Mr Nadir's case, at which lawyers representing Mr Cooper will claim rights to £2m of Mr Nadir's £3.5m bail money which be forfeited by fleeing to northern Cyprus last

## Bank bids for state computer service

By Robert Peston, Banking Editor

By Michael Smith

BARCLAYS, the higgest UK bank, is on the short list of bidders to huy DVOIT, the organisation that provides computer services to the Department of Transport and

its executive agencies. There are four other hidders on the short list: EDS-Scicon, the information technology subsidiary of General Motors of the US; Computing Sciences Corporation of the US; Hoskyns, the UK computing services group; and a consortium combining DVOIT managers and IBM of the US.

DOUBTS about the future of 12

reprieved coal mines bave increased following the insis-

tence by the two main electric-

ity generators that British Coal

reduce prices to below world

levels to reflect stocking costs.

sharebolders should bave to

pay stocking costs for coal we

do not need immediately," said

one generator executive.
The hardline approach by

There is no reason why our

licences drivers and vehicles. Barclays said it wanted to

exploit the expertise it has acquired over the past 30 years running one of the country's higgest computer systems, which provides money transmission, cheque clearing and settlement services. Its hid is part of a strategy to

reduce its dependence on earnings from traditional banking activities. In common with many banks, Barclays expects only modest growth in sales of banking services in the next few years. No other UK clear-

National Power and PowerGen

will anger ministers because

the government has said it will

subsidise output from the 12 to

meet the difference between

production costs and sale

prices until privatisation

Unless British Coai can

increase sales by 15m tonnes a

year it is likely to have to start

closing the pits, which were

reprieved less than two months

ago after a public outcry over

plans for a further sbarp con-

within three years.

seeking ways to boost earnings from their complex computer sing Agency, which collects vehicle excise duty and systems. A year ago Barclays set up a

trading business, Barclays Computer Operations (BCD), which runs the hank's computer operations and also competes to manage other companies' computers, a service known as Facilities Managemant. It has since made an ahortive bid to manage the Inland Revenue's computer operations, which are being contracted out to the private

The bank said that in the past year BCO had acquired 10 clients in addition to working ing bank has gone this far in for the bank. It said these

Reprieved pits under threat over prices traction of the mining indus-

> The generators' case for lower prices is based on their argument that anything they buy will have to be added to stockpiles already big enough to meet the needs of power stations for six months.

British Coal bas already negotiated to sell 40m tonnes of coal to the generators this year and 30m in each of the next four years. These sales will, however, provide a market for only the 19 pits which British Coal considers its core

DVOIT by the end of the

The company has already offered to cut the price to between 90p and 95p a giga-joule - a measure of thermal efficiency - less than twothirds the price in the core con-

But that figure compares with a price of about 86p for coal traded in Rotterdam, where most coal imports to Europe are bought and sold.



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in one camera, there's very little you can't do. Let's start with the fact that each camera is fully automatic; from autoloading and advancing, to autofocusing and exposure. If that's what you want. If not, with various manual override features, you can create a camera that gives you complete control.

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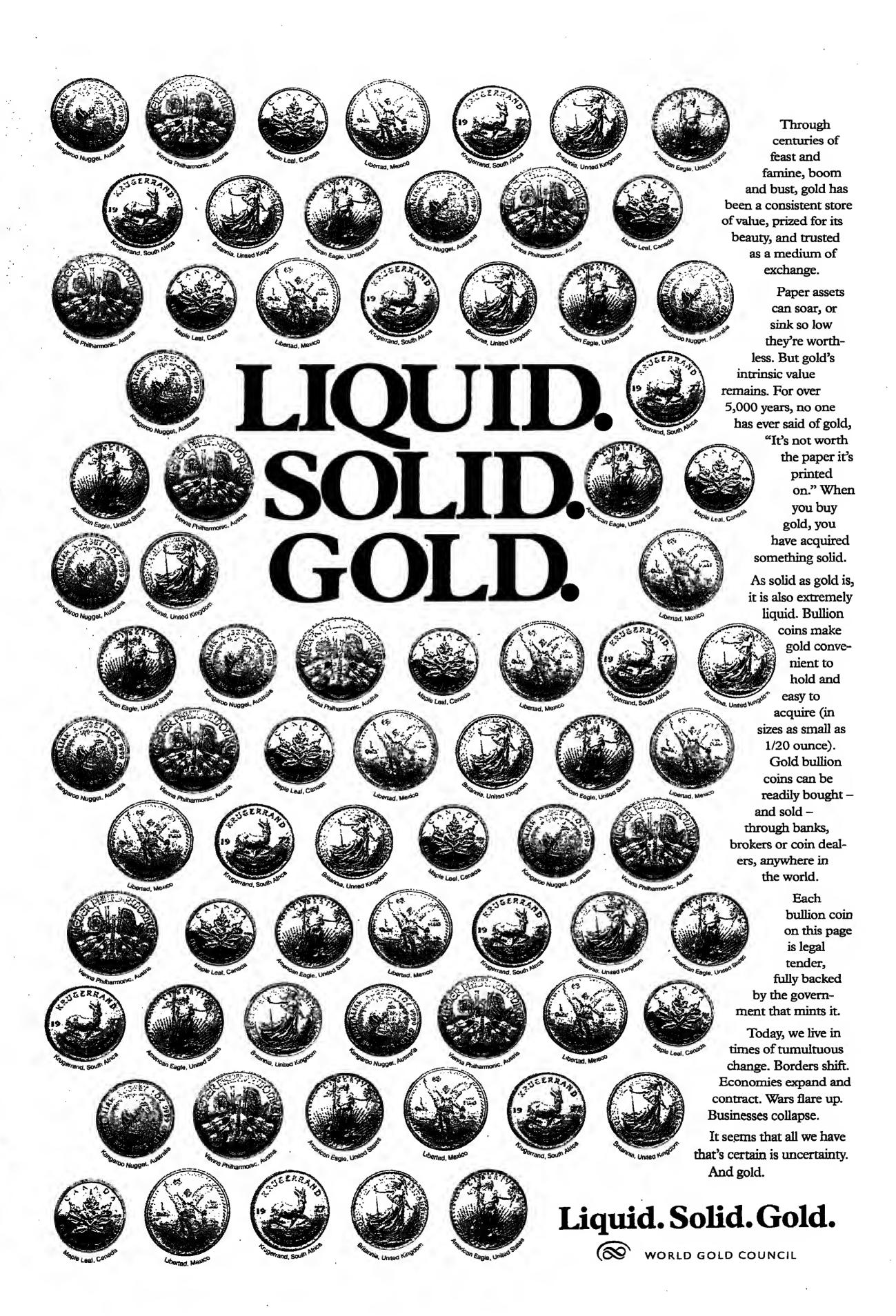
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#### THE WEEK AHEAD

**ECONOMICS** 

## Hope of pointers on UK policy from Clarke's first Mansion House speech

MR KENNETH Clarke, the new British chancellor has picked a busy, and potentially awkward, week to deliver his first pre-bud-get Mansion House speech. Economists are hoping tomor-mur's eracech will hely them form row's speech will help them form er idea of what the so-far

a clearer lace of what the so-far reticent Mr Clarks has in mind for the UK economy. He will be speaking after the release of May's industrial pro-duction figures. Manufacturing output is forecast to have risen marginally on the month. Another fall – following a 0.3 per cent month-on-month fall in April - would increase pressure on the new chancellor to ease monetary policy. But unemp ment data later in the week is forecast to show only a slim rise in the May jobless total following three successive monthly falls. Other economic statistics and events of the week follow. The

from MMS International Today: UK, May producer prices index, input (down 0.2 per cent on month, up 7.1 per cent on cent on monta, up 7.1 per cent on year), ontput (up 0.2 per cent on month, up 3.9 per cent on year), excluding fond, drink and tobacco (up 2.7 per cent on year). Spain, May consumer prices index (up 0.3 per cent on month, up 4.6 per cent on year). Sweden

cent). Switzerland, Bank for

PARLIAMENTARY DIARY

mons: Questions to National Heritage ministers, Public Accounts Commission, Commons Commiss and Commons Leader, Leasehold Reform, Housing and Urban Development Bill, Lords Lords: Pensions Schemes (Northern ireland) Bill, second reading. Crofters Scottish Land Court Bill, second reading. Education Bill, report.
Osteopaths Bill, committee. Local Government (Overseas Assistance) Amendmenti Bill, second reading deregulation, 4.15pm, Witnessess Mr Andrew Large, chairman, Securities and investments Board. Public accounts - grant-maint schools, 4.30pm, Witness: Sir secretary, department for educati Information - the parliamentary data and video network, 4.45pm. Witnesses: Mr Jeremy Bray MP, Sir David Mitchell MP.

**TOMORROW** Commons: Education questions. 3.15pm Questions to the Prime Minister, Trade Union Reform and Employment Rights Bill, Lords

International Settlements annual meeting in Basia. US, April busi-ness inventories (up 0.1 per cent); May Atlanta Fed Index. Hong Kong and Australia, markets closed for holiday.

closed for holiday.
Tomorrow: UK, Chancellor
Kenneth Clarke delivers Mansion
House pre-Budget speech in London; June CBI distributive trades survey published: April manufac-turing output (up 0.3 per cent on mooth, 2.1 per cent on year), industrial production (up 0.2 per cent on month). Finland, May cent on month). Finland, May CPI (up 2.6 per cent on year). US, May CPI (up 0.2 per cent), excluding food and energy (up 0.2 per cent), May real earnings; Ql current account; June 1-10 auto sales rent account; June 1-10 auto sales (6.7m units), truck sales; Johnson Redbook. Canada, April building permits, April wage settlement increases (up 1 per cent). Japan, April machine orders excluding electricity and ships (down 13 per cent); May trade balance (\$8.8bn surplus), May wholesals price index (down 0.2 per cent oo month, 2.9 per cect on year). Australia, April housing finance. Wednesday: UK, May retail sales (up 0.2 per cent on month.

sales (up 0.2 per cent on month, up 3.1 per cent on year), May PSBR (25.2bn). US, May housing starts (1.28m), May building permits. May industrial production (up 0.2 per cent), May capacity utilisation (81.4 per cent). Japan, April Industrial production, April

amendments. Finance Bill, ways and means resolution.

Lords: Railways Bill, second reading

Northern Ireland (Emergency and Prevention of Terrorism Provisions)

Commons: Foreign Office questions. Trade Union Reform and

Employment Rights Bill, end of debate on Lords amendments. House of Commons Disqualification

Act 1975, schedule amendment. Lords: Debate on changes in the

countryside. Select Committees: Foreign affairs - European council 21-22 June.

10.00am. Witness: Mr Douglas Hurd,

Parliamentary Commissioner for

parliamentary commissioner. 10.15am. Witness: Mr William Reid,

competitiveness of Uk manufacturing

tion of small businesses.

Welsh affairs - rural housing. 10,30am. Witness: Mr Gwllym Jones.

administration - report of the

parliamentary commissioner for

Trade and industry - the

Transport - London's public

transport capital requirements. 4,00pm, Witnesses: British Rail

(Continuance) Order.

foreign secretary.

UK manufacturing output 1985 = 100, seasonally adjusted

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Thursday: UK, May unemployment (up 6,500), average earnings (up 4 per cent), unit wage costs (down 2.5 per cent in latest three months), May retail prices index (up 0.4 per cent on month, 1.4 per cent on year), excluding mort-gage interest payments (up 2.9 per cent og year). Germany, Bundesbank Council meeting in Frankfurt. Switzerland, Swiss National Bank Spring press con-ference. US, April merchandise trade (\$8.5bn deficit), merchan-dise exports (\$38,7bn), merchan-dise imports (\$47,5bo); initial claims week ended June 12 (342,000); state benefits week

ended June 5; Q1 revised productivity figures; June Philadelphia Fed Index; money supply data week ecded June 7. Canada, April merchandise exports (up 0.4 per cent on month), merchandise imports (down 1.1 per cent), trade balance (C3900m), April manufacturing shipments (up 0.2 per cent on month).

Friday: UK, May M4 (up 0.3 per cent on month, 3.5 per cent on year), May net new commitments (£3.50m). US, June Michigan sentiment. Canada, May CP7 (up 0.2 per cent on month, 1.9 per cent on year).

on month, 1.9 per cent on year). Australia, April export prices, April manufacturing prices. April manufacturing prices.

During the week: Germany,
May WPI (flat); March trade baiance (DMI.7bo surplus), current
account (DM4bn deficit). May M3

unemployment rate (5.3 per

Network southeast, London buses Ltd, London underground, London regional passengers committee; Mr Steven Nords, transport ministe nt - (1) work of the hea

and safety commission; (2)the nagement of redundan 4,15pm. Witnesses: (1)Sir John Cullen, chairman, health and safety commission and Mr J.D. Rimingtor director-general, health and safety executive. (2)Mr Iain Vallance, chairman, British Telecommunications

Health - community supervision orders, 4.15pm, Witnesses: Mrs Virginia Bottomley, health secre Community psychletric nurses Public accounts - centre for applied

microbiology and research, 4,15pm. Witness: Mr Graham Hart, permanent secretary, department Treasury and civil service - the role of the civil service, 4.15pm. Witnesses, civil service commissioners, Professor Eric

Home affairs - funding of political parties, 4,45pm, Witnesses; Sir Norman Fowler, Conservative party chairman, Mr Tim Smith, treasurer, Science and technology - translation of the science base into innovative and competitive technology, 4.45,

Witnesses: department of employment officials. Joint committee on consolidation etc, bills - (1) Lord chancelor's memorandum on the pension schemes (Northern Ireland) bill. (2) Crofters (Scotland) bill. (3) Scottis Land Court bill. 4.30pm, Witne (1) Mr T. Erskine, office of legislative council, Belfast. (283) Mr F. Wallace.

THURSDAY Commons: Treasury questions .15pm Questions to the Prime Minister, Defence estim first of two days. Lords: National Lottery Bill. committee. Debate on energy efficiency of buildings. elect Committees: national heritage - the future of the BBC. 10.30am. Witnesses: Federation Independent Television Commissi Opposed bill committee - Greater Nottingham light rapid transit bill.

FRIDAY Commons: Debate on Government strategy for science, engineering

10.30am.

KENWOOD APPLIANCES, the domestic appliances company that floated last June and made a profits warning three months later, is expected to report preliminary pre-tax profits of about £9.5m today, up from £9.3m. Despite e better second half and the acquisition of Tricom in Hong Kong last November, earn-ings per share are unlikely to be ahead as significantly as expected by some at the float

an update on the restructuring ramme et FKI when the elec

(up 6.8 per cent), May PPI(up 0.1 per cent on month, flat on year). Italy, April industrial production. (down 2.5 per cent on year); April
WPI (up 5.6 per cent on year),
PPI (up 5.6 per cent on year),
Spain, May M4 (up 5.2 per cent
or year). Netherlands, May cent). Denmark, May CPI (up 0.7 per cent on month, up 1.1 per cent on year). Japan, QI GNP (up

Emma Tucker

nual results tomorrow. Mr Bob Beestoo, chief executive. Beestoo, chisf executive, has seen FKT's share price nearly trable in value since he was brought in from BTR at the beginning of last year. Analysts, who expect pre-tax profits to have risen from E3im to about £37m, will also be interested in the state of tha group'a large US automotive market.

Granada, the leisure, television and computer services group, is expected to announce healthy pre-tax profits of about £57m for the 26 weeks to March 27. This will compare with £57m

27. This will compare with £57m

watching for further signs last time although that was for a 22-week period. Modest progress is expected in both rental and television with about £5m profit, against £4.3m, expected for computer services. Noting that investors were showing more interest puter services. Noting that investors were showing more interest in the leisure sector, Mr Bruce Jones, leisure analyst at stockbrokers Smith New Court, said they felt "comfortable" with Mr Gerry Robinson, chief executive. NFC, the transport and logistics company, is set to report interim profits on Wednesday of about £40m, virtually unchanged from e year ago. Analysts will be

growth from its US logistics business. They will also want to see the effects of the sale in Isr the effects of the sale in January of the company's waste manage-ment division. The sale will depress the transport division; profits, but reduce group interest costs over the year.

Dawson International is due to report its results for the year to March 31 on Thursday. One of Britain's biggest clothing manu-facturers, it is expected to double profits to £32.5m. Earni

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grow to 13p (10.4p) per share.

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**UK COMPANIES** 

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English National Inn., 3, Firstory Avenue,
E.C., 12.00

on Co., 41, Cheval Place, S.W., 11.15 Garthore American Securities, 16-18, Moramote Street, E.C., 12-30 Covett Oriental Inv. 7rust, Partiers Hal, 3. Little Tanilly Lark, E.C., 12-00 Geweings, Sanzilord Springs Golf Chin, Wolverlan, Harls, 10.00 Haden MacCaller, Great Fosters, Stroude Road, Epitum, Survey, 10.00 Helical Bar, 11-15, Fert Street, W., 11,30 Moseken (John), Building Employers

Confederation, Cavendish Conference Centre, 18-23, Duchess Mews, W. 12.00 Travis Peridine, Lord's Banqueting & Conferen Centre, St. Johns Wood Rosel, N.W., 12.00

CDMPARY MEASTH HOUSE Hotel, Puddingmoor, Beceles, Soffals, 12.00
Henring Beder Herris, Saddlers House, Gutter Lane, E.C., 12.00
Hotel (Joseph), Roebuck Hotel, 2, Church Road, Fach, Marchester, 12.00
Hopidneons Group, Controme Hotel, Cilippos Cary, Satrof Carly, Mencrester, 11.30
Menn Focus Group, 26, West Street, Newbury, Station, Holder Ford, Royton, Oldhum, Lancs.,

Termec, Hyde park Hotel, 68, Knightsbridge, 5.W., 12.00 BOARD MEETINGS:

Bevern Treat South Wales Heat.

E TRUBSDAY JUNE 17
COMPANY MEETINGS:
Contra-Cyclical Ins. Trust, Great Eastern Hotel,
Liverpool Street, E.C., 12.00
Jumps low, 3, Beeston Place, S.W., 12.00
Paramies, 125, High Holborn, W.C., 11.30
Pleanes, Franklan Pund Hotel, Churt, Fernham,
Sunty, 12.00 Authorispenta Hildges, Institute of Chartened Accountants, Moorgain Pince, E.C., 17.00 City of Outland time. Treat, 41, Tener HR, E.C., 12.00 Jeoka (Millem), Sunningdale Centige Co., London Road, Sunningdale, Berlow, 12.00 Surrey, 12.00 River & Mercantilla Geared Cap. & Ico. Tel. 1980, New Corvaught Hooms, Great Queen Sheet, W.G., 11.00 Silegathy R.C.J., Victoria Hotel, Bridge Street. Bradford, 10.30 BOARD MEETINGS: Touls: Booth lads.

Swan (John) Total Systems nlerkini; Hantonic Date Pror

Plante note: Reports and accounts are not nousely available until approximately six we diar the board meeting to exprove the

4

## **CONFERENCES & EXHIBITIONS**

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JUNE 16 & 30 Natiling the Jelly to the Wall STRATEGY SEMINARS AT THE LSE for senior executivee involved in corporate and informating Systems emporate and informatino Systems strategy and planning. Speakers include business and IS strategists and academics. A practical strategy workshop on the 16th. 2-6 pm at the LSE. Tel: 071 955 7968 Fax: 071 955 7385

JUNE 23 International Wheat Council World Grain Conference Speakers will address pertinent ist affecting world grain trade. Experts will ses to food emerger porticularly in Africa, and discuss

Tel: 071 513 1122, Fax: 071-712 0071

Paying for Inter-Urban Roads Paper on road charging and financing road infrastructure. Speakers include Rt Hon

John MacGregor MP, Secretary of State for Transport, Contact Into Dale, The Waterfront Partnership. Tel: 071 730 0430. Fax: 071 730 0460.

LONDON

JUNE 23 The Business Environment to 2000 : Anticipating and planning for Change.

The Healey Centre. Key sessious on economic and merket prospects, new global realities, planning to chaotic times, politics and people

Tel: 071 353 9961

JUNE 23

The Portfolio Executive Interim Executive Magazement Service Keynote address by Sir Jubn Harveynes. How does it work, when and why to use, and the true costs are among the issues discussed by lop backness ecceutives, providers, major users and interim ma

PA Consulting Group. Tel: 071 730 9000 Fax: 071 333 5050

JUNE 22-23

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LONDON JUNE 24

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JUNE 30 **Business Performance** 

of Corporate Change
A helf-day executive semigar on new ational and technological impacts, Cost £350 + VAT. Contact: Anns Disloy LONDON

Contact: Martin Wood, LONDON

Conference On Investment Projects in The Ukraine

Ministers and decicina-mekers. 68 struent and development projects to the fields of fuels, cheoristry, tourism, Iraneport, communications nie. An in one of the richest former Soviet states. Springwell Com Tel: 0737 780150 Fax: 0737 780160

JUNE 22-24 Software Development

Software Development '93 is dedicated in the full range of systems and application development issues. Over 150 exhibitors erilical to MIS Directors, Project assgars and technical specialists are fully explored.
Contact: Lynne Davey, Blenheim Online
Tel: 031 742 2828 Fax: 081 742 3182

Tel: 081 742 2828 Fax: 081 742 3182 BIRMINGHAM

easurement: The Instruments

approaches to management reporting and control. Harvard Business School guru Robert Eccles and senior UK executives ceplore how to introdnen new, nnnicial and 'upstream' indicators into the business planning and reporting process. Contact: Business Intelligence Tel: 081-544 1830 Fax: 081-544 9020

JUNE 30 **Utilities and Their Customers** -Whose Quality of Service is It? CRI conference discusses the setting of include BT plc, SustainAbility Ltd, East Midlands Electricity plc, Ofwat, National ricity plc, Ofwor, National Consumer Connell and the Citizen's urter Unit. Delegate disc Contact: Leigh Sykes, CRI Telephone: 071 895 8823

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JULY 7 Petroloum Revenue Tax
A conference examining the effects and
implications of the Government's budget changes in PRT. Speakers include the

Finencial Secretary to the Treasury, Stepben Dorrell MP. Contact: lain Dale, Tel: 071 730 0430 Fax: 071 730 0460 LONDON

**JULY 8** Regulation Of The Retail

The conference will discuss how effective regulation can be achieved, the shape of future regulation, together with the rules relating in product disclosure and their lorpaet on finencial institutions. ics: Financial Times. Tel: 071-814 9770. Fax: 071-873 3975/3969.

**TUPE And Acquired Rights:** 

Government And Industry Conference examining current legal and practical issues raised by EC Acquired Rights Directives and UK Transfer of Undertakings Directive. Speakers from EC, DOE, Trade Unions, Confrecting Enouiries: Amanda Daglish. Tel: 02| 4|4 322| Fax: 02| 4|4 32|7 BIRMINGHAM

SEPTEMBER 6 & 7 Acquiring and Veluing in Spain Acquiring and Valuing in Italy

These two one day seminars will take you through the equisition process, bighlighting the problems facad by foreign ecquirors. Includes practical experience from those who have done it. Contact: Acquisitions Monthly Tel: 071 823 8740 Fax: 071 581 4331

LONDON

SEPTEMBER 27-28

Insurance Law Update New initialives to tackle frand; implications of the Unfair Contract Torus Directive: Lloyds Business Plan: Policy Holders Protection Act; US market; Contact: Athina Peters, IBC.

Fax: 071 631 3214 LONDON

OCTOBER 1 The New Yellow Book Key changes; practical implications for coorpanies; new epplications and new information requirements; contents of listing partic ers and mergers; the ac

rale. CPD 6 hours. Contact: Athine Peters, Tel: 071 637 4383 Fax: 071 631 3214 LONDON OCTOBER 4-7

Total Quality Managemen

The Right Way to Manage® William E Corway

Bill Conway, the first Western CEO to implement the Deming philosophy in the West, will present bis Right Way To Manage Seminar. People of all levels can learn from hie knowledge and turn philosophy into practice. Mike Gallimore & Associates Ltd.

Tel: (0621) 858058 Fext. (0621) 850972 BIRMINGHAM NOVEMBER 10

**Hong Kong Works** A Hong Kong Government/Institute of Directors conference focusing on the increasing strategic importance of Hong Kong as the interna In East Asia, Speakers Include the Prime Minister and Governor of Hong Kong. Contact: Management Centre Enraps, **Enquiries: Director Conferences** 

INTERNATIONAL

JUNE 24-25 Competitive Intelligence
Panicipate in a 11/2 day programme of
advanced-level seminars presented by
Kirk Tyson and other husiness intelligence experts. Learn how to organise the intelligence function, and link it with the strategic management activity of the firm. Learn about powerful anelytical 1001s used to measure petitor scientific and technological gths.Contact: IIB SA. Tel: +41 22 362 77 67 Fax: +41 22 362 77 92

JUNE 28 & 29 Opportunities in Product Take-

GENEVA

Back And Recycling This forum will look at how take-back tion will change the face of inc and examine the strategic opportunities to develop the capabilities to respond to the new environment. Enquiries: Financial Tel: 071 814-9770 Fax: 071 873 3975/3969 BONN

**JULY 5-9** The 8th Anglo-Japanese High Technology Industry Forum 1993 Convened by The Royel Institute of Internetional Affairs, London and The Jepan Economie Foundation, Takya. Sponsored by: DTI, Northern Telecom, Pilkington and Zeneca. For further details please contact: Andrew Ackroyd, The Royal Institute of Interestional Affairs. am House, 10 St James'e Square, London SWIY 4LF

**JULY 5&6** Modernisation of

TOKYO

Tel: 071 957 5700 Fax: 071 957 5710

Telecommunications in Central and Eastern Europe have alreedy been taken inwards nodernisation and facus on baw the market is likely to develop in the future. Enquiries Financial Times Tel: 071-814 9770 Fax: 071-873 3975/3969

BERLIN SEPTEMBER 8&9

World Motor Timed to coincide with the Frankfurt Timed to coincide with the Frankfurt Motor Show, this hiemial meeting wio focus an challanges and apportunities facing European, US and Japanese motor manufecturers end ecomine how the industry is responding to the corrent priries Financial Times Tel: 071-814 9770 Fax: 071-873 3975/39 FRANKFURT

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**NOVEMBER 25-26** 

**CONTRACTS & TENDERS** 

E.C., 12.00 BOARD MEETINGS:

Finels: AAH Hidgs.

Brockhirept Cater Allen Chloride Dert Groop Desemport i

Desembert Knitwee Desember Inti. GEI Inti. Hently Oil & Gas Locker (Thomas) Desember Come. Portumouth Water

GOVERNO DA BAHIA

BAHIA STATE GOVERNMENT BAHIA STATE ROADS OFFICE - DERBA CORREDORES RODOVIARIOS DO ESTADO DA BAHIA PROGRAM

and, The Browney, Chicago Street

**BIDDING NOTICE** 

Be it known that the "DEPARTAMENTO DE ESTRADAS DE RODAGEM DA BAHIA" (Bahio State Roads Office), through its Bidding Permanent Commission, authorized by the General Management, according to the Government Edia (Portaria) no. 595/91, invokes "INTERNATIONAL BIDDING" for the contract of Road Construction Companies which will be responsible for the works of Improving and Paving, Adequacy and Restoration of 07 (seven) distinct lots of roads which take part in the "CORREDORES RODOVIARIOS DO ESTADO DA BAHIA" (Bahia State Road Network) PROGRAM: A - 02 (two) lots for Improving and Paving works: Lot I · E.R. BA S/C, length E.R. BA 825 Junction/Cotia, with B7.57 Km (54.41 miles) of extension; Lot II · E.R. BR S/C, length Mimoso/BA 825 Junction, with 18.69 Km (11.61 miles) of extension and E.R. BA 825, BR 242 Junction/Bahia and Tocantins State Border, with 55.07 Km (34.22 miles) of extension; lotal extension of A: 73.76 Km (45.83 miles). B - 05 (five) lots for Adequacy and Restoration works: Lot III · E.R. BR 407-BAT, length Moiri/BA 052 Junction, with 29.70 Km (18.45 miles) of extension; Lot IV · E.R. BA 407-BAT, length BA 421 Junction/Rui Barbosa/BR 242 (ZUCA), with 39.11 Km (24.30 miles) af extension; Lot V · E.R. BR 407-BAT, length BA 421 Junction/Rui Barbosa/BR 242 (ZUCA), with 39.11 Km (24.30 miles) of extension; Lot V · E.R. BR 407-BAT, length BA 374 and BA 220, length Senhor do Bontim/Antonia Goncalves/Campo Formoso, with 25.93 Km (10.11 miles) of extension; Lot VI · E.R. BA 515, length BR 324/Teodoro Sampaio/BR 101, with 32.58 Km (20.24 miles) of extension; Proposals will be received at 15:00 of clock on the 4th of august of 1993, in DERBA General Management meeting room, on the 2nd floor of its headquarter located in Centro Administrativo da Bahia · CAB, in the City of Safvador, Bohia, Brazil. The services which are subject of this announcement will be partially financed with the Inter-American Development Bank · IDB funds the CORREDORES Be it known that the "DEPARTAMENTO DE ESTRADAS DE RODAGEM DA BAHIA" (Bahio State Roads da Babia - CAB, in the City of Sarvagor, earlia, prazil. The services which are subject of this announcement will be partially financed with the Inter-American Development Bank - IDB funds the CORREDORES RODOVIARIOS DA BAHIA PROGRAM. Brazilion and foreign enterprises which originate for the countries members of the IDB - Inter-American Development Bank - may take part in this bidding. The concerned members of the IDB - Inter-American Development bonk - may take part in this blading. The concerned companies may acquire the Proclamation after paying of the amount of CrS 5.000.000,00 (five million cruzeiros). They may also require any necessary explanation with the Bidding Commission of DERBA headquarters, in Centro Administrativo do Bahia -CAB, 4.º avenido, Safvador, Bahia, Brazil, phoneno. (071) 371 4073, fax no. (071) 370 2256, on week-days from 13:00 to 19:00 o'clock, presenting its lawful preroge for representing the bidding company.

DERBA ENERGY, TRANSPORTATION AND COMMUNICATION AGENCY - SETC

#### **LEGAL NOTICES**

CASE GROUP LIMITED (IN MEMBERS'
VOLUNTARY LIQUIDATION)
TARE NOTICE that on 16 November 1992 M
Stephen Robert Edward Hascock of Pile
Westhouse, Conwell Outr. 19 Company Se

Notice of Creations' Meeting under Section 48(2) of the Insulvency Act 1986 Company No: 22956 Registered in England Boddeley Brothers (London) Limited Principal place of Business: 24 Boundary Street, London E2 7JE

NOTICE IS HERBBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the orderened creditors of the above-named company will be held at St Andrew's House, 30 St Andrew Stevet, London ECAA 3.AV on 7 July 1993 at 11.00 not for the purpose of leving laid bother is a copy of the separate oby the administrative receivers under Section 48 of the mid Act. The neuting my, if it thinks fit, enablish a committee to currence the Sacction 48 of the mid Act. The neuting my, if it thinks fit, enablish a committee to currence the Sacction 48 of the mid Act. The neuting my, if it thinks fit, enablish a committee to currence the Sacction 48 of the mid Act. A proxy form is necleosed. Creditors whose claims are wholly secured are not extilled to atmed or be represented at the moving. Other creditors are only suchied to vote it.

(a) they have delivered to us as the address shown below, so both them soon on 6 July 1993, writing (a) they have defivered to us at the address shows below, so both them soon on 6 July 1933, writened below, so both them soon on 6 July 1933, writened details of the debts they claims to be due to there from the company, and the claim has been dely admitted under the provision of Rule 3-11 of the insolvency Ruless 1966, and (b) there has been lodged with us any proxy which the creditor intends to be used on lets of the behalf. Please sole that the original proxy signed by or on behalf of the creditor small be lodged at the address mentioned; photocopies (including faund cooless are not accorditable).

copies) are not acceptable Signed Date: 8th Jone 1993 CJ Burlow & R M Addy Joint Administrative Rec Coopers & Lybrand St Andrew's House 30 St Andrew Street, London SC4A 3AY

Appears every Friday in the Financia

Stephen Robert Edward Haacock of Pilcs Waszhouse, Cottwall Court, 19 Comwell Street, Siralingham B3 2DT was appointed as the inquisher of Case Group Limited ("Case"). In 1988, Dowly Group Pilc ("Dowly") made a takeover offer for Case ("Offer"), Under the Case. Offic:

(1) For every 200 Casu shares. Downy officeed 59 new Downy ordinary shares and 133 Downy 7% convertible redecumble preference abures; and (2) A separate cash alternative for the Case shambulden to produce the confidence of the Case. (2) A separate cash alternative for the Case shareholders to purchase the new Dowly ordinary shares at 190p per share. This cash alternative layed on 7 September 1983 or 14 days after the Dowly offer became enconditional.

The liquidator of Case new intends to upply to Coast sander Section 429 of the Companies Act 1983, to pay ions Coast the shares and cash which Case has been holding on trust for the shareholders of Case who did not secept or respond to the offer.

respond to the offer.

If you are one of the Case shareholders who did and accept or respond to the offer, you are hereby requested to notify Price Waterhouse (for the attention of Mr SRE Hanoucki at Corawall Court, 19 Corawall Street, Birmington, 2 appearance. attantion of Mt SRE Hanouck! at Cornwall Court. 19 Cornwall Street, Birmingham B3 2DT on or before 31 July 1993 of your interest, no that you may receive your conference. If you do not respond by that due the liquidation of Care will proceed with the todgement as be seen fit in the circumstances, and you would then be unable to recover your earliament without making your own application to the Court.

NOTICE OF ADMINISTRATION NORTH STAFFS PIPE LINE LIMITED -IN ADMINISTRATION
Registered number: 00837715. Papelayers. Trade cla Administration order made: 19 May 1993 John F Powell and Ian N Carrethers

> COMPANY NOTICES

(Office holder numbers 2695 and 6682)

THE ROYAL BANK OF CANADA U.S. \$300,000,000 Floating Rate Debenture Notes due 2085
NOTICE IS HEREBY GIVEN that for the interest Period commencing of 1981, June, 1983, the Notes will bear interest at the rate of 3%% per annum. The interest payable on 15th September, 1993 against Coupon No. 30 will be U.S. 99.104166 per U.S. \$1.000 persion! Agent Bank

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LONDON LONDON LONDON LONDON TO ADVERTISE IN THIS SECTION PLEASE CALL ALISON PRIN ON 071 407 5752.

## The right attitude

oyal Mail's 180,000 employees now know officially that they are a pretty miserable bunch. According to an internal employee attitude survey fed back to them this month, a record 70 per cent of them are unhappy at work.

Uncertainty over privatisation, reorganisation of the service, new technology and worries over job security – not to mention a 1.5 per cent ceiling on public sector pay this year – all contribute to rock-bottom morale.

Managers at Royal Mail, in common with those at British Telecom, which has had similar upbeavals and similar employee attitude survey results, profess not to be surprised by the findings. At the same time, there is within both organisations a profound level of scepticism among staff about whethar the results of the surveys will lead to any changes: questionnaire answers show that at BT only 16 per cent of staff were able to think of any improvements resulting from the previous year'a survey; at Royal Mail, around half thought management would not act on tha findings.

But in spite of this widespread scepticism and the predictability, in many cases, of results, the employee attitude survey industry has never been healthier. The BBC is one of the most recent additions to swell the ranks of those organisations now sending out employee attitude questionnaires. Other companias include IBM, Abbey National, Digital Equipment and Hoechst UK, A flourishing band of consultants and survey companies has grown up to service this fashionable growth area.

Section 2000

45

While companies auch as IBM, where staff surveys have been conducted since 1963, make conscientious attempts to translate findings into action, other organisations may be wasting money on research – perhaps £20,000 a shot for a modest project in a medium-sized organisation – that merely raises expectations and is then shelved.

"Let's do an employee attitude survey" appears to be a reflex response by companies to a range of perceived problems, according to Bill Quirke, a consultant with London-based Synopsis Communica-

The first mistake companies make is to become immersed in



technical matters such as questionnaire design, without being clear what the survey is for and what will

be done with the results.

Typically, the decision to carry out an employee attitude survey will spring from a fundamental disagreement at hoard level about what is going on inside the company, be says: "One director will

say that people are unhappy and are complaining - they don't understand the mission, they don't understand the restructuring. Another will say it's not that had. What he really means is 'to hell with whether they're happy or not, we're in a recession'".

At that point the decision is made to bring in a third party to establish

#### Employee attitude survey checklist

Gain commitment of senior management, clarify objectives and define areas where company prepared to take action.
 Decide hetween census of employees - probably paper-based - and random sample - maybe

- and random sample - maybe face to face interviews.

Conduct pilot.

Design questionnaire - needs experienced help.

Tell employees what is being done: the more internal publicity, the greater the chances of success.

Guarantee confidentiality.

Consider measures to improve response rate, for example, hy holding supervised completion sessions in company time.

 If the survey involves face-to-face interviews, conduct with one or two employees at a time. Avoid group discussions - difficult to maintain confidentiality in groups and to enable everyone to have a say. Produce final report. Distil evidence, reach conclusions and put forward recommendations. Present to top management.

Report back to employees with summary of main findings. • Individual or group should be made responsible for action following survey findings; monitor progress. Source: Institute of Personnel

the facts by conducting a survey.

And so the process begins, based,
essentially, on the kind of debate
that is never going to get anywhere

bow for companies should be

"nice" to their employees.

The idea of worker happiness comes from an outdated, hierarchical view of work, claims Quirke. "People at the top tell people at the bottom to go and do the job, and then you check every now and then whether the natives are restless," he says. Indeed, employees may be lat and happy while their company is failing to adapt to new markets, processes or customer requirements, he adds.

Companies need a more hardheaded approach to what they are trying to find out, and why, he says. "People need to know where tha organisation is going, they need to understand their local objectives and how they fit in, and they need to get regular feedhack. Those are the things that should be tested."

Quality programmes, in particular, mean that the common existing model of communication – the person at the top shouts through a megaphone to the person at the bottom – is no longer appropriate.

The next commonly made mistake is to become obsessed with acores and comparisons with other companies, rather than looking at what the results mean and how far they fit in with the business needs of the organisation. Much of the time, admits Quirke, it is possible for a consultant to construct a report on the findings before carrying out the research and without knowing anything about the client's industry.

The Norm Report, as he calls it, would reach the following conclusions on communications, for example: most people prefer to hear things through their immediate boss; people are most interested in information about their own immediate work unit; managers want more information but, at the same time, complain about being deluged with paper; the grapevine is tha most used, though least preferred, way of finding out about things.

There are even national norms for employee attitude survey scores, according to the International Survey Research organisation: Swiss employees are the most satisfied, followed by the Dutch. The British are the most dissatisfied, identifying least with their organisations and feeling most insecure in their jobs.

The next stage within most organisations, once the predictably uncomfortable results have been collected, is for collective gloom to set in. For some companies, the first time such an exercise is conducted will also be the last — even the results of a pilot may warn senior managers off the idea.

## A mindset to escape from the tiger

Bryan Webster offers an unconventional view

e need to face the unpalatable fact that our national management mindset is affecting the whole of our national performance. That mindset projects the manager as troubleshooter, problem-solver, dynamic decision-maker. It is responsible for our love of organisation charts and job descriptions for particular managers, so that we know who to blame if things go wrong. It is underpinned by our

ubiquitous appraisal and by our performance-related pay schemes.

Above all, there is our touching belief that we can improve our businesses by training managers

the Charter Initiative, MBAs and extremely expensive Executive Development Programmes.
 While we are wasting our time and energy on such a management.

model they have discovered something different elsewhere. The Japanese, for instance, have demonstrated thal companies are not collections of managers, nor even of functions; they are

processes.

If these processes are understood, refined, controlled and continuously improved, goes their view, the organisation will achieve its goals.

combinations of Interacting

So what can we learn? If our current management mindset is dragging us down, what will lift us up? The emerging management is organic rather than mechanical; rather than attempting to manipulate the ends, top management seeks to cultivate the capability of the company. We can think of this capability

The first is process capability. Quality of product and service is achieved by controlling the interacting productive, business and management processes. Nissan have so developed process control that improvements of 0.6 of a second can now be picked up and implemented.

The second element is organisational capability. It consists of obvious things such as, buildings, finance, technology, systems and people.

Check your organisation's mindset by giving this case study to your managers:

study to your managers:
You discover customers have been told that a particular service is available from you at half its real cost. You track the mistake to a particular section. The company value statement says it will honour its word, but to provide the service at the cost quoted will seriously affect quarterly profits in your unit.

What is to be done?
A manager in a managercentred company will:
tell staff to stop the ser-

out what has gone wrong;
hold meetings to get to
the bottom of it;
decide what went
wrong; find who is to

hlame;

of if another area is to hlame, sort out the manager (unless it is their own

boss);

• personally restart the service to show staff how it is to be done;

• If Individuals are to

blame, counsel them or give them a warning:

congratulate self on decisive management.

A manager m a process-centred company will:

ask staff to advise customers that service has been withdrawn;
 ask team to investigate, then correct factors within their control;
 review team's findings;
 review the process by which policies are implemented at unit level;

set right factors external to team; aystems, resources, communication;
 confirm new procedures and train everyone;
 take team through the incident specifically to learn lessons;
 give individual help where needed.

and not so obvious, such as employee goodwill and behaviour, credibility with customers, market awareness, the ability of the organisation to learn and, of course, the directing of all these towards a common goal

(management).
Organisational capability is what
the Japanese are preserving when
they hold on to their skilled people
in a downturn, and what brings

them running out of it.
The third element is personal capability. Everyone, everywhere must keep their face turned to the real world, and keep learning how to prosper in it.

how to prosper in it.
in particular It means top
management encouraging the
awkward questions that challenge
their own self satisfaction and
so lead them to search for new

learning and new answers.

The world's best companies are already well into the process capability method of management. Asea Brown Boveri, for instance, has cut its lead times by an average of 21 per cent and hopes to take them down to 50 per cent

by the end of this year,
To achieve this Percy Barnevik,
ABB's chief executive, has
changed the role of his managers
from "a combination of policemen
and errand boys; now they act
as support for the workers". And
the workers are working at the

processes.

This way of managing will become common in the next 10-20 years and those who wish to cling to the manager-dominated model should pay heed to the parable of the tiger, which is now fast becoming part of management

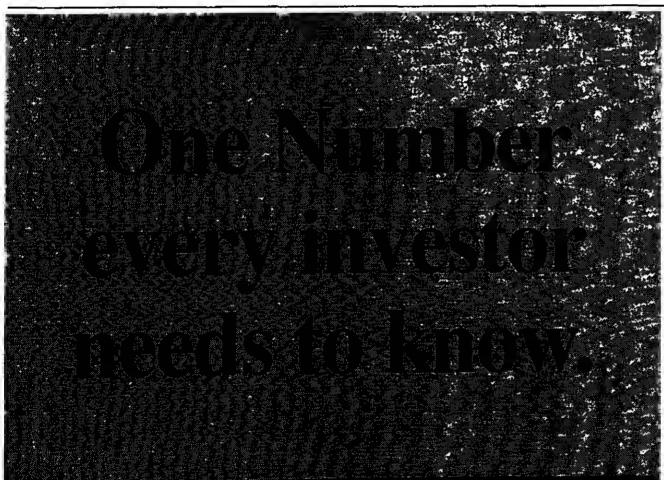
folklore.

It tells of two bikers, who find themselves facing a man-eating tiger. One pulls out a pair of trainers and puts them on. "You must be Joking," says his companion, "you can't outrun a tiger." "No," be replies, "but I can outrun you."

I first beard the story six years ago, from a chief executive in one of Britain's top companies. He thought it was funny.

But in those six years his company lost its profitability, much of its market and two-thirds of its workforce. Finally, it dispensed with his services.

He was nearer the tiger than be thought. The author is an independent management counsellor.



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Watches & Switzerland

Selected Branches Nationwide

### BOVIS PROGRAM MANA GEMENT (BPM) is providing design expertise on the huild-

ing of BAA's new 400,000 sq ft Terminal 1 airside development at Heathrow. BPM, a division of the P&O

company Bovis Constructioo, and architects Richard Rogers Partnership have been hrought together for the first time in this way to create the facility which is due for a phased completion by December 1995. There are three different

aspects to the project. A new £20m purpose-huilt flight connections centre aims to attract transfer passengers hy offering tailor-made services under one

An enlarged international departure lounge at Terminal 1 will enable passengers to take advantage of catering areas and 56,000 sq ft of retail space. The lounge will have seating accommodation for 1,400 and first class and business class

The third improvement involves the replacement of the baggage handling system with fully automated equipment which will include facilities for the handling and storage of transfer baggage. This will sllow smooth handover from one airline to another and one

#### **US highway**

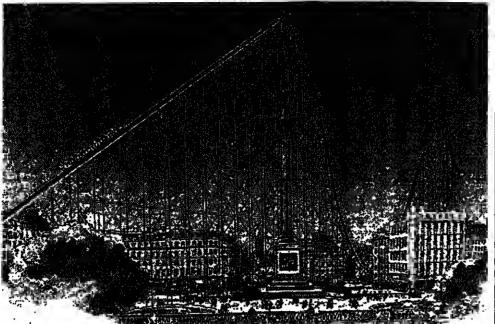
EVERED BARDON has been awarded an US\$8.9m (£5.77m) contract to resurface an eightmile section of Interstate 95 in Massachusetts.

Bardon Trimount will be prime contractor on the project, for which it will be supplying 140,000 tons of coated stone from its nearby coating plants.

#### **British Library**

SIR ROBERT MCALPINE has been awarded the £4.3m contract for the construction of the structural frame on the next phase of the new British Library in St Pancras, London, for the Department of National Heritage. The contract is programmed for completion in 47 weeks.

## Blackpool leisure project



An artist's impression of the proposed rollercoaster, superimposed over Nelson's Column

steel running track.

WATSON STEEL has won a £5.7m contract to supply steel for what is helieved to he the world's highest rollercoaster. due to be huilt in Blackpool,

Working for Blackpool Pleasure Beach. Watson will supply and erect a total of 2,000 tonnes of structural steel. Also to be installed under the contract is a further 250 tonnes of tuhular

At its highest point, the Fabrication will take place at rollercoaster will stand 235ft Watson's Boltoo factory during the summer months, with erection scheduled for a 10-week

From here, the drop has an angle of 65 degrees, which will allow cars to reach speeds of period commencing at the beginning of November, during 85mph. The rollercoaster will run around BPB's 42-acre promenade site for just over a ning of the year by Shepherd mile, and will be above all the

BPB's close season. The steel

work is to be erected on foun-

dations completed at the begin-

TAYLOR WOODROW DESIGN BUILD is making a name for itself in the frozen and chilled distribution centre/warehouse market with three contracts worth over £30m in total.

The latest, for Iceland Frozen Foods, is the construction of an environmentally friendly building covering more than 25,000

Situated on 20 acres of former British Rail land on the metres the warehouse will

west side of Swindon, off the Wootton Bassett Road, the centre will be divided into sections for frozen, chilled and ambient

At Minworth in Birmingham. Taylor Woodrow Design Build is undertaking the design and construction of Cadhury's new automated chilled storage

Land reclamation at Hong Kong bay

KIER HONG KONG, part of mation of 10.3 hectares of land, Kier International, has won a dredging and disposal of 1.2m £25.5m reclamation and roadworks contract in Hong Kong's Belcher Bay let hy the highways department of the Hong

The project includes recla-

dredging and disposal of 1.2m cu metres of marine mud and filling with approximately 1.8m cu metres of marine sand.

Also included in the contract is the construction of about 812 metres of blockwall sea wall

Geest, the new terminal covers 9,500 sq metres and has storage facilities capable of holding

accommodate 15 km of racking

standing 15 metres high and be

Taylor Woodrow Design

Build's third contract was the

recently completed fruit termi-

nal at Southampton Docks. Constructed for Associated British Ports and used hy

split into three units.

and approximately 122 metres of piled sea wall. Roadworks comprise 14,000 sq metres of new roads including four new signalised junctions together with associated drainage and landscaping

## Hurd adviser crosses fence

The discreet world of the political lohbyists has recruited a fresh disciple. Edward Bickham, one of For-eign Secretary Douglas Hurd's most trusted advisers, has decided to cross the parliamen-tary divide and join Hill and Knowlton, one of the top three public affairs consultancies.

Bickham, 36, replaces Tom McNally, the former Labour MP and adviser to Jim Callaghan, who left in April to head the lohhying arm of Shandwick. Bickham joins early next month as managing director, public affairs and cor-

porate policy.

Although Bickham's titla suggests his brief will be some what wider than an old political hand like McNally, his arrival at Hill and Knowlton completes a series of high-profile changes at the top of an industry where success often depends on getting a client's ideas heard in the right places. At the end of 1992, Des Wilson, former campaign manager of



the Liberal Democrats, joined Burston-Marsteller, the other

hig player.
It has long heen rumoured thet Hurd plans to quit politics before the next election. But Bickbam, who has not ruled out standing for Parliament at

in a non-executive capacity.

Christopher Rodrigues,

chief executive of Thomas

Alan Jones, at BRITISH

■ Howard Rohinson, at

Cook, at OWNERS ABROAD.

LEY MOTOR GROUP.

TISH & NEWCASTLE.

SON GROUP.

S. LYLES.

West Water.

ING SOCIETY.

decision to leave Hurd's side does not mean his old boss will also head for the private sector shortly. Having been special adviser to the Home Secretary and in Northern Ireland, Bickham had never intended a sec ond stint in Whitehall when he left to join British Satellite Broadcasting in 1988. But he was called back into service hy Hurd at the time of the Gulf War and has acquired a reputation as one of the most effective of the current crop of parliamentary advisers.

Bickham differs from Sir

Bernard Ingham, Lady Thatcher's former press secretary who is also on the Hill and Knowlton payroll, in that he is not an old-style political fixer. Instead he believes in knowing his way around the ever-changing regulatory undergrowth. Companies need to "anticipate trends in regulation when developing husiness plans rather than reacting late in the day in an atmosphere of crisis."

#### Non-executives

■ John Westhead, chlef axecutive of Bowthorpe, has rejoined the board of Southern Water as a non-executive director after an absence of fifteen

The board of Bowthorpe had suggested, when Westhead was promoted from groop managing director to chief executive at the beginning of 1992, that he should relinquish other commitments. Now that he has settled into that role, however, his fellow directors felt that the Sonthern position would hring "useful cross-fertilisation", said Martyn Wehster, group managing director of

"I was upset when he first had to go. He is a very good non-executive director at the sharp end of British industry reputation in the City."

Non-executive director Sir David Nicolson, having turned 70, stepped down from the Southern board in March.

■ Colin Phipps, chairman of Clyde Petroleum, has resigned as a non-executive director of Budgens, the grocery chain, after two years on the board. The company says that now it has completed its restructuring phase his job is over.



■ Geoffrey John (pictured above) at MORLAND. ■ Sir Richard Lloyd, Rafe Clutton, and Thomas Manners have retired from LEGAL & GENERAL GROUP.

■ Sir Malcolm Field, at SCOT-Martin Harris has retired from NATIONAL WESTMIN-Alan Fletcher, at South STER BANK. Sir Eric Ash is to retire from David Allvey at McKECH-BRITISH TELECOM.

■ Ian Bntler has resigned from NURDIN & PEACOCK. ■ Nicholas Irens at SIMS Kenneth Gould has retired Bill Blackburn and John from GOAL PETROLEUM. Williams at CHELSEA BUILD-Sir Mark Wrightson, at NEWMAN TONKS GROUP. ■ BIH Reid at JACQUES ■ Sir David Nicolson has

retired from LASMO.

#### IBJ's capital markets emphasis

Toshiki Toha has been appointed chief executive of IBJ International, the London capital markets operation of the Industrial Bank of Japan Japan's largest long-term credit bank.

He replaces Yoshio Osawa who is returning to Tokyo this month to take up a position as eneral manager of the securities business. He will be appointed to the board at next nonth's annual general meet-

Tobe has been based in London for 18 months, as manag-ing director in charge of capital market operations. IBJ has a policy of creating an overlap between a current chief executive and his successor, unlike

Tobe says the firm plans to strengthen its presence in the capital markets, including the derivatives side of the business. For example, IBJ will soon put traders on the floor of the London International Financial Futures & Options

Exchange (Liffe.)
IBJ International has a staff of 300 in London, and is one of the most active Japanese financial institutions in the international capital markets. According to IFR Securities Data, which tracks bond financings IBJ ranks 21st in the Eurobond league table, after Nomura, Daiwa and Nikko, but ahead of any other Japanese bank subsidiaries. The firm is not active in the equities business, from which the parent is excluded under Japanese law. IBJ also has a hranch in London through which its corporate lending business is channelled.

■ John Newman, formerly a regional director of Hill Samuel Bank, has been appointed assistant general manager of CREDIT LYONNAIS UK.

■ Richard Keatinge, is to rejoin BANK OF IRELAND GROUP as head of corporate finance after a period at Hard-

■ David Deitch has been appointed a director in the foreign exchange division of CHASE INVESTMENT BANK. Les Komaromy has been appointed marketing director of KEMPER INVESTMENT MANAGEMENT, the UK subsidiary of Kemper Financial

## SIEMENS

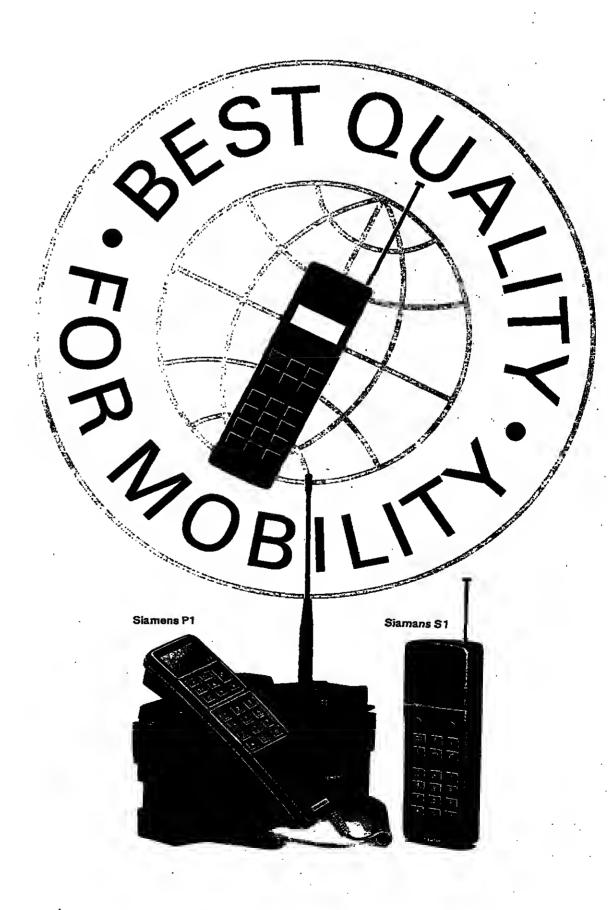
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## Architecture/Colin Amery Chernikov's visionary skills

Cbernikhov (1889-1951) was known as the Soviet Piranesi because of his visionary skills as an artist and draughtsman. His work was, until recently, relatively unknown despite the fact that he is clearly an important influence on contemporary architecture and design, He was one of the leaders of the Russian avant-garde - an architect, engineer, theorist and artist, who was forced by the mad dictates of Stalinism to lead an unfulfilled life.

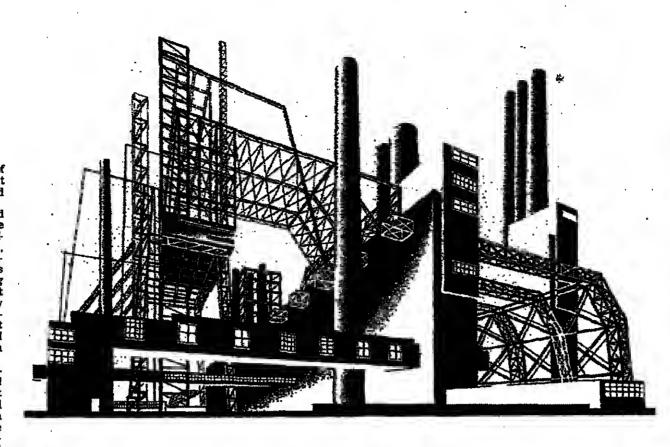
The grandson of this great pioneer, Andrei Chernikhov, has established a foundation to promote interest in his grand-father's work and to encourage architectural experiments among the young. It is this foundation, with the International Academy of Architecture, that has organised the remarkable exhibition that has been seen in the US and is now showing in London until July 20 at The Architecture Foundation in Bury Street, London, S.W.1. (in The Economist Buil-

This is one of the best architectural exhibitions to be seen anywhere at the moment. It shows the intense vision of one man at one period of time the 1920s and 1930s. Since the collapse of communism, It has become clear that there is endless work for architectural historians to do m eastern Europe - reassessing the roots of modernism is merely one task that has to be done. But the Chernikhov exhibition can be appreciated on its own terms as the work of an intensely talented and technically skilled architect who was a major part of that group in Russia that really were the advance guard of modernism.

The exhibition is called "Architecture of Fantasy." The title is in some ways mislead-ing. Although Cbernikhov, along with many other tal-ented architects and artists was unable to practice during the Stalinist regime, he cannot have seen his work as merely fantasy. His drawings are philosophical statements about structure, geometry and machines that could have been built.

He was born in 1889 in Pavlovgrad in the Ukraine, and initially be studied painting at the Odessa College of Art and later the Academy of Arts in Leningrad. There are some highly respectable "old Mas-ter" drawings from that period of his life in the exhibition. He moved on to the study of architecture in 1916 and, because he had to earn his hving while studying (not to mention the disruptive effects of the Russian Revolution), he did not graduate until 1925.

His early professional life was devoted to teaching and writing. He founded the Research and Experimental Laboratory of Architectural Forms and Methods and Graphic Art in Leningrad in 1928 where he was to teach both drawing from nature and abstract composition. His "fantastes" were a part of his system of teaching, showing the infinite possibilities of geometry and the skilled use of drawing instruments. He also developed, as we can see from the



Soviet Piranesi: architectural fantasy on an industrial theme

in 1979. They were both more

more variety in their work.

original form makers, and had

ness is the sense of power behind these drawings. They

do represent a movement and

in Soviet Russia in the 1920's

the new architecture was pow-

erful enough to convince seri-

ous classical architects to join

the experiment and produce

work that bridged the frontiers

between classicism and mod-

ernism, It would be interesting

to see an exhibition of the

work of architects like Zholtov-

sky and Fomin who were

geninses at bringing all the

forces of history to their work.

There is one particularly

What is fascinating to wit-

exhibition, a marvellous colour sense. The exhibition includes photographs of the classes at the school with rows of uniformed pupils drawing away under the manic gaze of Chernikhov.

His work exemplifies the innovative approach to archi-tecture of the Constructivists of the 1920s, but because Chernikhov was so well versed in engineering and perspective his architecture ie more expressive than the work of his contemporaries. It is not possible in the London show to compare his work to Meinikov and Leonidov - as it was in the Paris/Moscow exhibition that 1 recall at the PompidouCentre

moving exhibit that architects here might read with profit especially those members of the RIBA who complain of government interference in the profession. In 1935 Chernikhov's books were hanned from state libraries and his teaching was curtailed. He wrote a moving letter to Joseph Stalin begging for an end to his intellectual exile. Needless to say Chernikhov never received an answer. He

attempted in some of his work to adjust to the megalomania of Stalin's architectural taste. His extremely monumental designs inspired by the official desire for memorials to the Second World War are literally

amazing. Even more disturbing are his drawings for the "Pal aces of Communism" series that portray with uncanny prescience the giant prisons of Stalin's long tyranny. These are poignant and powerful works that show the intensity of his visual imagination.

What is shown at the Architecture Foundation is only a fragment of his output. He left behind some 780 drawings and 50 books, and be clearly deserves a thorough biography and scholarly analysis of his important work. This display is an important glimpse into a world of architectural creation that most of us had almost for-

embroidered versions of "All

Along the Watchtower" and "Memphis Blues Again".

evening an occasion.

Dylan on the main stage we

had Irish high apirits, with

Hothouse Flowers, and Irish

melancholy, with Van Morri-

son. Hothouse Flowers lifted

the crowd and got the arms

waving. They may lack the

character and originality to

become mega but as a snap-

The slower songs were less

productions.

ABSA played its part in producing the research and will supply copies of the findings for £150 to its members and £75 for arts organisations.

successful, enabling the man to take refuge in his legend, but Incentive Scheme, under which Dylan still sounds miraculously contemporary. He can £4.5m. of Government money is available this year to match find relevance and rhythms in his music with the right aura new, and existing, sponsorships by companies, has gone to make a damp depressing international. Britisb Council The Fleadh is a wonderful offices in 98 countries can now reminder of the Irish contribuapply for grants, up to a collection to popular music. Before

tive limit of £250,000. The first beneficiary was the Birmingham Royal Ballet. Its visit to Thailand was sponsored by Jaguar to the value of £15,000 and the Bangkok office of the British Council secured an additional £3,750 for the trip through the BSIS scheme. As an established sponsor Jaguar only qualified for a 1:4 bonus. The British Council is selling hard to business the commer-

shot for the 21st century of what a mainstream pop band used to be like on stage they could hardly be bettered. Morrison just goes on and on, his jangly, Jig-like band acting as the ideal counter point to his resonant, lived in voice. He was in restrained, spiritual in sponsorship, beating its target by £1m. And most of this sum, £4.9m. in fact, fostered arts events rather than exchanges and training. in the current economic cli-

**Antony Thorncroft** 

#### Sponsorship

## Decisions based on hard data

ne reason why arts sponsorship has been slow to develop from a chairman'a perk to a vital component in a company's strategic marketing programme is the lack of research into its effectiveness. This is not surprising. It can cost more to assess scientifically the impact of sponsorship on an arts event than the funding of the event

This is changing. Sponsor ship is moving inexorably under the control of marketing directors who tend to make spending decisions on the basis of hard data. So when Clerical Medical, the insurance company, considered increasing its commitment to arts sponsorship, It thought it essential first to invest in research.

A £15,000 survey into the composition of the audience for the arts, and its views on arts sponsorship, has not come up with anything sensational but its very existence bas been enough to eway the board. This year Clerical Medical spant under £100,000 on arts sponsorship, mainly on music at the Batb Festival, In the future, while its competitors concentrate on sport, it plans to reach its potential customers by investing more heavily in the

The research, which is hased on responses from over 8,000 individuals, confirms that the audience for the arts is just what a company wants - affluent, middle aged, and committed. Arts lovers prefer music and the theatre way above other arts forms and see little wrong with sponsorship. They think sponsors should concentrate on trying to bring seat prices down, and their main complaint is that sponsors grab the best seats.

In the main the research is positive. The findings would perhaps deter companies from supporting the experimental and the avant-garde, but sug-gest that the Royal Opera House is on the right lines in its attempt to get prospective sponsors to belp by subsidising seat prices rather than new

cial spin-offs that can follow from sponsoring British arts companies on overseas trips, especially the opportunities to meet key foreign politicians. Its enterprise is paying off. Last year it brought in £8.8m.

mate it is getting harder to per-suade husiness to invest in the arts and there are numerous arts companies, including the RSC, the CBSO, and the National Theatre, still seeking sponsors for projected overseas tours this year. But the Coun-cil has raised its target for 1993-94 and has high hopes of a major splash in Los Angeles in late 1994.

Glaxo has put up £36,000 for a three-year programme to give the children of Ealing, where it is a major employer, their first taste of opera. Pavilion Opera performed Donizetti's L'Elistr d'amore in four schools during May, and 1500 childreo were involved in linked projects and as an enraptured audience.

The recently established Pavilion Opera Educational Trust (POET) is now talking to the mayors of Westminster and Tower Hamlets in the expectation of finding local companies who will support performances in these boronghs in future years. POET chairman Geoff-rey Simmonds is seeking £75,000 a year which will finance twelve school performances by the chamber opera troupe.
Vanity Fair, the magazine, is

spending the little money it has this year for promotion on helping the arts in an unconventional way: by underwrit-ing parties. On Thursday 250 friends of the Serpentine Gal-lery gathered, with the Princess of Wales, for a gala dinner deeigned to raise around £50,000 towards the Serpentine's £1.5m. rebuilding appeal. The party went all the better thanks to a £30,000 contribu-tion from Vanity Fair.

Earlier this year Vanity Fair paid for the launch party for the movie Damage. It feels that the participants at these glitzy charity events are its type of reader. It also helps that the Serpentine is enhancing the gala with a three-day show of works by artists who have enjoyed exhibitions in its bucolic setting over the decades, artists like Hockney, Moore, Rego, Hitchens. and

As usual the London international Festival of Theatre (LIFT), which opened yesterday, has been well backed by sponsors. The key new sponsor is BT which, in its desire to get jects, is supporting two local carnivals, one based around Vletnamese newcomers to Greenwich, the other a Trinidadian masquerade in Spitalfields, in addition it is backing LIFT's first major educational programme in which overseas artists train London school children in their skills.

Cable & Wireless, Enterprise Oil, Routledge, and British Gas are also involved, and Cameron Mackintosh is financing a visit by the Hanoi Water Puppets, the first Vietnamese arts group to tour the UK, in recognition of the Vietnamese contribution to his hit mnsical. Miss Saigon.

There may be no Glynde bourne Festival in Sussex this year (the theatre is being totally rehuilt) hut the nine concerts arranged by Glynde-bourne with the LPO on London'e South Bank this summer are virtually sold out, and the first, a concert performance of Béatrice et Bénédict on June 21st, is to be sponsored by the Banque Nationale de Paris.

Antony Thorncroft

#### Aldeburgh Festival/Richard Fairman

## Sanctuary kept at arm's length

increasingly looks like Benjamin Britten month. Riding on the coat tails of the Aldeburgh Festhe record co tend to save up any Britten and this year promise to excel themselvee: the first ever recording of Gloriana, brand new sets of Peter Crimes and A Midsummer Night's Dream, and a re-issue of Owen Wingrave are all on the point of reaching the shops.

Since Britten's death the guardians of the Aldeburgh Festival have kept its focus on new music, looking forwards rather than looking hack. Any danger of the festival turning into merely a sanctuary for Britten's music has been kept at arm's length, hut when one of hie works threatens to become an extinct species, there is every reason to revive it. The last-named of the operas above, Owen Wingrave, is rarely seen. On Friday it formed the opening night of this year's festival.

ideally, the opera would have been staged. (One fully staged production a year, besides any other considerations, would give audiences a stronger incentive to make the journey out to the East Anglia fens.) Owen Wingrave, though sion opera, comes across sur-prisingly well in the theatre, as we know from the 1973 Royal Opera production. But, for given a concert performance

Like the original television film (recently repeated by the BBC), this opera is in black-and-white. There is none of the ambivalence between good and evil so cleverly exploited by Britten in his best works, only a confrontation between what is right (the young, pacifist Owen) and wrong (his crusty, aristocratic, military family).

Where the stage production gained was in the music's powerful evocation of atmosphere, the suffocatingly musty air of the Wingrave family seat. Britten was an experienced writer for the stage by this time and knew bow to compose a mood right through an opera by basing all the music on a small number of recognisable intervals and harmonies

That was lost in this concert performance. So, more cru-cially, was a lot of the text. The London Sinfonietta, playing from the stage, was too dominant a presence; the resonant acoustic of the Maltings

written specifically as a televi- did the rest. I doubt that there was much the conductor, Oli-ver Knussen, could have done, but it was only in the later, The programme preceded less heavily-scored scenes that Bach's Goldberg Variations

matic grip.
In the title-role David Wilson-Johnson made Owen a less blameless spokesman for peace than usual by introducing a touch of irresponsibility and wilful rebellion. It was good to see John Shirley-Quirk as Coyle, the only survivor here from the original cast. Otherwise the singers made an impression according to how many of the words they could get ecross, John Graham-Hall as Lechmere and Mary King as

Kate being the most euccessful.

Even now there are Britten premieres that the festival is managing to dig out. After Owen Wingrave the audience could drive to Aldeburgh Parish Church for a late-night recital featuring the Haffner Wind Ensemble directed by Nicholas Daniel in two movements of a yonthful Britten Wind Sextet - lively music, with a fine ear for sound and echoes of various other composers' styles. The enigmatic eecond movement did not make it clear whether Britten regarded the piece as finished.

On Saturday the main event

was a piano recital by Peter Serkin at the Maltings. This was a classic Aldeburgh event. which the planist has commissioned from leading contemporary composers.

A time-limit of six minutes seems to have been set, but some participants - like Knussen in his Variations, Op.24 and Alexander Goehr with +...in real time 1+" - subdivided their allotted time into even smaller units. Both pieces were inventive, vividly-charac terised; the Goehr looked a beast to play.

In his Rain Tree Sketch and its successor, Rain Tree Sketch II. Toru Takemiteu preferred ahort mood-paintings, near-impressionist in their sensitivity and delicacy, a surface of flickering activity over a deep underlying calm.

Takemitsu is the festival's featured composer this year and the programme of his music includes three film events. The festival ends on 27 June with a repeat performance of Orden Wingrove.

Owen Wingrave sponsored hy

## Dylan in one of his more bullish moods

If you're Irish a Fleadh is a extrovert, Imaginatively party; if you're not Irisb (perhaps even if you are) it is falling flat on your face in a muddy field, making contact with a ricb undergrowth of the rain while waiting for some warmth, some raising of the spirits, hy musicians from over 30 predominantly Irish bands. Good things have been spo-

ken of this annual hooley in north London, but Saturday's event was only fitfully enjoyable. An English summer was et its bleakest and Finsbury Park lacks natural grandeur. Even an appearance hy that well-known Irishman, Bob O'Dylan, failed to ignite the 20,000-odd rather forlorn spectators. Dylan was in one of his more

bullish moods. He tried. And though not by nature an Irishman you could somehow recall hearing his voice, that confident cranking of a musical saw, replicated by some lone Paddy in the bar of a Camden Town pub on a Saturday night. On my last viewing of perhaps the most creative pop artist ever he was invisible, skulking in the shadows of a stage and content with a perverse mock-ery of his talent. On Saturday be was up front, blowing his harp with enthusiasm and doelling with his guitarist in

mood, with songs like "The Garden" rather than the old belters. He came across as a genuine echo of an Irishman far from home.

## INTERNATIONAL

#### BERLIN

OPERA/DANCE Staatsoper unter den Linden Tonight: Il barbiere di Siviglia. Tomorrow: Daniele Gatti conducts first night of Augusto Fernandes' new production of Rigoletto, with a cast led by Giancario Pasquetto, Ruth Ann Swenson and Vicente Ombuena (repeated June 17, 20, 23, 25, 29. July 2). Wed and Fri: Gluck's Iphigénie en Aulis. Sat: Swan Lake (200 4762) Deutsche Oper Tonight: Götz Friedrich in conversation. Wed and Sat: Alfredo Kraus and Lucia Aliberti sing opera arias and duets. Thurs: Don Glovanni. Fri and Sun: Aida. July 1, 2, 3: Peter Schaufuss production of Sleeping Beauty (341 0249)

CONCERTS Philharmonie Tonight: Günter Wand conducts Berlin Radio Symphony Orchestra in works by Mozart and Schubert, with plano soloist Maria Tipo. Tomorrow, Wed, Thurs: Seill Ozawa conducts Berlin Philharmonic Orchestra in works by Schumann

and Richard Strauss with piano soloist Maria Joao Pires. Sun: Ozawa conducts open-air concert at Waldbühne (2548 8232) Schauspielhaus Tornorrow: Jiri Kout conducts Orchestra of the Deutche Oper in works by Richard Strauss and Schubert, Wed: Ulrich Backofen conducts Estonian State Symphony Orchestra in Berwald, Part, Sinding, Svendsen and Sibelius. Thurs: Ludwig Güttler Wind Ensemble. Sat and Sun: John Nelson conducts Berlin Radio Orchestra and Chorus In Gorecki and Watton (2090 2156)

A new production of Shakespeare's A Midsummer Night's Dream has just opened at Schlifer Theater, directed by Hans Neuenfels. The same company stages Stephen Pollakoff's Strawberry Fields, first night Sat at Werkstatt (312 6505). A new production of Kleist's Amphitryon, directed by Jürgen Gosch, can be seen at Deutsches Theater (2844 1225). The new Mariene Dietrich musical runs daily except Mon at Theater am Kurfürstendamm (300 6000). Porgy and Bess runs at Theater des Westens till June 27 (3190 3193) Tickets and information for theatre, revues, concerts and

nightclub shows available from City

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■ NEW YORK

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THEATRE Angels in America - Millenium Approaches: the first part of Tony

Kushner's epic, freewheeling play about gay life, Aids, Reagan-era politics and Mormonism. Not to be missed (Walter Kerr, 219 West 48th St. 239 6200) The Who's Tommy: a stunning stage adaptation of the classic 1969 rock opera, a collaboration between its original author, Pete Townshend.

and director Des McAnuff (St James, 246 West 44th St, 239 6200) Later Life: A.R.Gurney's widely-acclaimed new comedy about a man and woman who meet after a 30-year separation (Playwrights Hortzons, 418 West

42nd St, 279 4200) The Sisters Rosensweig: Wendy Wasserstein's play, e cornedy with serious undertones, about the reunion of three American Jewish sisters in London (Ethel Barrymore, 243 West 47th St, 239 6200) Oteanna: David Marnet's

powerful drama about political correctness and saxual harassment (Orpheum, 126 Second Ave at 8th St 307 4100) Fool Moon: a comedy with physical humour, chaos and music, written by and starring David Shiner and Bill Irwin (Richard Rodgers

Theatre, 226 West 48th St. 307

 Someone Who'll Watch Over Me: Frank McGuinness'a drama about three Western hostages in Beirut, starring Michael York. Stephen Rea and Chuck Cooper (Booth, 222 West 45th St. 239 6200) Crazy for You: inspired Gershwin musical comedy (Shubert. 225 West 44th St, 239 6200) MUSIC/DANCE State Theater New York City Ballet's Balanchina Celebration runs

daily except Mon till June 27. This

week's repertory focuses on works of the 1970s, Including Stravinsky Violin Concerto, Sonatine, Le Tombeau de Couperin and Ballo della Regina (870 5570) Avery Fisher Hall Wed, Thurs, Fri, Sat: Leonard Slattin conducts New York Philiparmonic Orchestra in an all-Bernstein programme (875 5030). Kurt Masur conducts the orchestra in a six-concert Brahms and Schumann series at Carnegie Hall between July 14 and 29, with sololsts including Garrick Ohlsson and Shlomo Mintz (247 7800)

**PARIS** DANCE

 Britain's Royal Ballet opens a two-week season tomorrow at Théatre des Champs-Elysées, the company's first visit to Paris for 40 years. Repertory includes four Kenneth MacMillan ballets, David Bintley's Still Life at the Penguin Cafe, Balanchine's Ballet Imperial and Anthony Dowell's production of Swan Lake. Daily except Mon till June 27 (4952 5050)

 Tanzineater Wuppertal hrings two Pina Bausch programmes to Théâtre de la Ville over the next two weeks. The first programme, Tanzabend II (1991), can be seen tomorrow. Wed, Fri and Sat. The second, featuring Rite of Spring (1975) and Cafe Müller (1978), opens next Tues (4274 2277)

 Ballet de l'Opéra de Paris has two final performances each at Palais Gamier of two different versions of Giselle. Tonight and Wed is the remantic version staged by Patrice Bart and Eugene Polyakov, a revival of their 1991 production based on the

choreography of Jean Coralli and Jules Perrot for the work's premiere 150 years ago. Tomorrow and Thurs, the company presents Mats Ek's 20th century version, staged for the first time at the Opéra and conducted by Richard Bonynge. June 24-July 10: Balanchine/ Robbins production (4742 5371) June 22-26 at Chatelet: Frankfurt Ballet in OPERA

Opéra Bastille Tonight:

Myung-Whun Chung conducts first night of Jose Luis Gomez's new production of Carmen, designed by Jean-Paul Chambas and Jacques Schmidt, with Beatrice Uria-Monzon, Barry McCauley and Barseg Tumanyan. Sat: Julius Rudel conducts revival of Jorge Lavelli'e production of Faust, with Gluseppe Sabbatini, James Morris and Nancy Gustafson, Both productions run till mid-July (4473 1300) Châtelet Tomorrow, Thurs; John Eliot Gardiner conducts English Baroque Soloists and Monteverdi Choir in Jean-Louis Thamin'a new production of Le nozze di Figaro,

with Bryn Terfel, Rodney Gilfrey, Hillevi Martinpelto and Alison Hagley (4028 2840) Opera Comique Tomorrow: William Christie conducts Les Arts Florissants in first of 12 performances of Marc-Antoine Charpentier's Médée, ataged by Jean-Marie Villégier. Last

performance June 30 (4286 8883)

CONCERTS Tonight at Cirque d'Hiver: José van Dam sings opera arias with Orchestre National d'Ile de France, conducted by Jacques Mercier (4387 9143). Tomorrow at Saint-Denis Basilique: Jean-Claude Malgoire conducts sacred music

by André Campra (4243 7772). Wed et Opéra Bastille: members of the Opéra orchestra play chamber music by Britten and Milhaud (4473 1300). Fri at Salle Pleyel: Ellahu Inbal conducts Orchestra Philharmonique de Radio France in Rakhmaninov's Second Piano Concerto (Bruno Leonardo Gelber) and Shostakovich's Fifth Symphony (4561 0630). Sun morning at Théatre des Champs-Bysées : Christian Zacharias gives a Schubert plano recital (4952 5050). June 28 at Châtelet; Boulez conducts LSO June 29: Rattle conducts CBSO (4028 2840) JAZZ/CABARET Lionel Hampton Jazz Club Blues guitarist and singer Joe Louis

Walker and the Bosstalkers open a two-week residency tonight. Music from 22,30 (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Сут, tel 4068 3042) stille Studio The last of this season's Carte blanche jazz series takes place on Fri at 18.30, when clarinettist Louis Sciavia is joined by guitarist Marc Ducret and bassist Bruno Chevillon (4473 1300)

THEATRE The Pelican: a rare Ibsen directed by Alain Milianti. Daily except Mon till July 4 (Odéon Théâtre de l'Europe 4441 3636)

 Main Kampf: Jorge Lavelli directs George Tabori's farce about Hitler. Till June 27 (Theatre national de la Colline 4366 4360) The Taming of the Shrew:

production starring Jacques Weber

and Christine Bolsson, Dally except

Jérôme Savary'a Shakespeare

national de Chaillot 4727 8115)

Sat, Sun and Mon till July 4 (Théâtre

ARTS GUIDE Monday: Berlin, New York and Paris. Tuesday: Austria, Belglum Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Itely, Spein, Athens, London, Prague. Friday: Exhibitions Guide European Cable and Satellite Business TV (All times are Central Europeen Time) MONDAY TO THURSDAY Super Channet: European Business Today 0730; 2230 Monday Super Channel: West of Moscow 1230. Super Channel: Financial Times Reports 0630 Wednesday Super Channel: Financial Reports 2130 Thursday Sky News: Financial Times Reports 2030: 0130 Friday Super Channel: European Business Today 0730; 2230 Sky News: Financial Times Reports 0530 Seturday Super Channel: Financial Times Reporte Sky News: West of Moscow 1130; 2230 Sunday Super Channel West of Moscow 1830 Super Channel: Financial Times Reports 1900 Sky News: West of Moscow 0230; 0530 Sky News: Financial Times Reports 1330; 2030

## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Monday June 14 1993

## Financing the welfare state

THE DEBATE over UK welfare spending is taking place in a time-honoured muddle of secret bilatural mudd eral negotiation, leak and panic. A more reasoned examination is needed to determine what the state should be doing for its citizees in the 21st century, and how this can be financed.

Although prompted by the enfeebled condition of the public finances, this is a debate that would be needed even if the fiscal position were healthy. Demographic pressures mean that current spending commitments are unsustainable in the medium term; meanwhile changing lifestyles and individual tastes and aspirations make a separate case for e more varied pattern of provi-

THE RESERVE OF THE PROPERTY OF

. The starting point should be to revisit the principles behind the welfare state, originally set up to protect those who, through poverty, illness, unemployment or old age, could not help themselves. To achieve these aims, it provided a cradle-to-grave social security system, a national health service. low-rent housing and free state education. The universal provision of health and social security reflected the circumstances of British post-war society in which all but the wealthiest needed such support. The solidarity of wartime experience also gave resonance to the idea of a welfare state into which all contributed and out of

which all drew. That principle of social solidarity remains important. Any welfare system must command the support of those who contribute to it as well as those who most need its help. But economic growth has reduced the overlap between these two groups. An increasing proportion of people can provide pensions, bealth care, housing and education for themselves. There remains e large minority who depend on the safety net of the welfare state. Yet paradoxically, it is often the middle classes who get most out of the welfare state, leaving too little for those who lack alternativa means. Today, univer-sality is both unaffordable and undestrable.

Right balance

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The question which must be asked in every decade is whether the balance between collective and individual provision is right. A London School of Economics study estimates that over 60 per cent of the taxes paid by the average person is returned in various benefits (the rest goes in redistribution). The welfare state acts as a savings bank, with people pay-ing in when times are good and drawing ont in times of need.

vidual through private provision.

For some welfare services, however, efficiency may be best served by maintaining a role for the state. In health, for example, international experience suggests that some sort of state role is essential to bear down on the overall bill and ensure cost sharing between different groups. But even in the health service it is clear that many people want and would be prepared to pay for premium levels of service; this does not mean they wish to see the NHS

User charges

User charges also have a greater role to play in paying for public expenditure which confers economic advantage on the recipients. The planned expansion in higher education will need a greater contribution from students, with fees baing repaid through a graduate tax. Investment in roads might be financed by higher patrol taxes paid by those using them. And London First, the business consortium, has suggested that improvements in London's transport infrastructure could be partly financed by a levy on businesses in the capital.

Such moves involve a degree of hypothecation - of earmarking revenues for particular purposes. A pamphlet published today by Demos, a new think-tank, suggests much greater use of hypothecation to "reconnect taxation", so that voters can see where their taxes are going. It also advocates referendums to allow voters to choose eppropriate tax levels locally to pay for services such as health or public transport.

There are dangers in such an approach, such as the loss of necessary flexibility to switch funds between programmes and the tonic it might give to special interest groups. Badly structured local referendums could also encourage the wealthy to migrate to the lowtax suburbs, as in the US, leaving a weakened tax base incapable of dealing with the problems of the inner cities. But the Demos part phlet provokes exactly the sort of longer-term thinking which is missing from the current political debate. Dacisions made and unmade amid fiscal crises suggest to voters that the entire issue of reforming the welfare state is itself a crisis. It is not.

An orderly modernisation of the welfare state is desirable as well as necessary if people are to plan their lives around reasonable expectations of what they must

## Business ethics and China

FOREIGN investment is pouring into China. As the reports on page 2 indicate, China's growth offers such promise that businesses have to consider the opportunities. The risks include huge unknowns. How will the country be governed after the octogenarian leadership disappears? To what extent will economic reform bring political change, and will this cause insta-bility? For how long is China's economy doomed to a lurching boom-bust cycle?

There is, however, a further question. Is it morally defensible for businesses to seek profit in a country still firmly controlled by a Communist party which ruth-lessly and shamelessly stamps upon its people? This is tha gov-ernment which showed in Tiananmen Square four years ago that it was prepared to stop at nothing to hold onto power. Millions of peo-ple languish in its labour camps, tha products of their labour often

sold abroad. The issue should not be brushed aside as a concern of politicians, but not of business. Human rights are a matter for each individual. The decisions of each company's

directors matter. The strongest argument for par-ticipation in China's boom is that the contact now occurring daily between ordinary Chinese and thousands of foreign business people is e potent agent encouraging stable economic and political development from the inside. Western business practices and ethics are being communicated inside China as a practical matter, not as part of a sermon. The growth of private enterprise and individual expression is being fostered as values encouraged by state control wither. This is the "peaceful evolution" the Communist hardliners fear.

Such changes occur only gradually and can be frustrated. But consider the risks, both for e billion Chinese and for the world, of chaotic governmental collapse similar to that in the former

Soviet bloc. The world cannot expect westarn-style democracy suddenly to emerge in China. It is more realistic to expect slow progress towards greater phiralism in government – and it is in tha interests of the rest of the world that change occurs in a reasonably calm atmosphere.

The opening of China's economy is bringing broader political and social changes. The monolith is breaking down. Yet it is an oversimplification to suggest that the party's new dogma - the socialist market economy - is simply capitalism by another name. Businesses negotiating joint venture are usually dealing directly with official bodies, and bureaucrats still control the supply of many essential inputs. The success of a venture depends on having good connections within the system.

The moral question is, therefore, not easy to answer. Putting sound business principles into practice is the best foundation for assessing investment in China. Experience shows that the successful investments are those which tha foreigner thoroughly investigates and carefully oversees. First-hand scrutiny of a venture is not only to be recommended on business grounds, but it should also be used to satisfy the investor that it does not bring involvement in unacceptable practices such as prison labour. Companies, such as Levi Strauss, which have chosen to reject involvement in China because of the country's human rights record, are entitled to respect. Such decisions are, however, part of a carefully positioned corporate image and as such do not necessarily apply to others.

Foreign business presence in China is part of the west's overall policy of engaging in dialogue at every level, seeking to foster stable economic development while at the same time pressing China to conform to international standards of behaviour. Companies which do take the plunge deserve the support of their governments.

lonesome superpower in a world without other superpowers, the US is grappling with e new defence dilemma; how to spend less on weapons and still sustain the industrial and technological capabilities that he behind its

unquestioned military supremacy.
As long as the cold war lasted defence spending was high enough for this hardly to be an issue. But the question is in sharp relief now that the Clinton administration has committed itself explicitly to a policy of protecting the "defence todustrial base", from submarines to mil-

Tha US defence industry, with 2.75m employees, is already undergoing significant changes to contend with the shrinking home market. In today's dollars, the US was spending \$120bn a year in 1985 pro-curing military hardware. The figure for the 1994 fiscal year, starting in October, is just \$45.5bn.

In the past year, Martin Marietta, the missile, space and electronics group, has taken over General Electric's aerospace business; Hughes, part of General Motors, has absorbed General Dynamics' missile activities; Loral, which had already bought Ford Motor's aerospace division, has also swallowed the LTV missile business; McDonnell Douglas has put its helicopter and laser operations up for disposal; and General Dynamics has gone on to sell its electronics operation to the Carlyle group and its military aircraft division - maker of the F-16 - to Lockheed

Not persuaded by tha idea of "conversion", General Dynamics has chosen to become, instead of a \$10bn-a-year defence company, a

\$3.5bn-a-year defence company. "I would guess by the end of this century we'll see an industry that has maybe a third of the number of competitors in each category as there are now," says Mr Norman Augustina, chairman of Martin Marietta. "There has to be a consolidation." In some sectors, be says, it may not make sense to have competition at all.

The Pentagon has already indicated it plans to keep "one, not two" submarine production lines. US submarines, all nuclearpowered, are now built at General Dynamics' Electric Boat division at Groton, Connecticut, and at Tenneco's Newport News yard in Virginia. But current plans mean a gap of at least two years in building work before a new Centurion class comes on stream around the turn of the century.

The Question is whether it is worth ordering an extra submarine to keep one facility open, an effec-tive subsidy of about \$1.5bn e year. Against that has to be set the time it would take to reconstitute a production line once it had closed.

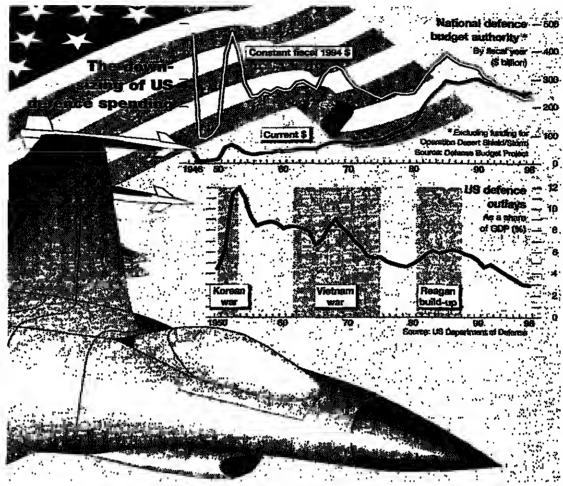
Mr John Deutch, under-secretary for acquisition, has promised spe-cial treatment for "unique" industries such as this, which have no overlap with civil business. Munitions are a similar case. "We strongly feel you need to build fences around them, protect them and nourisb them," Mr Deutch told a recent congressional sub-

In combat aircraft, a new shape is emerging in the industry, with just two companies - McDonnell Doug-las and Lockheed - taking primary roles in designing and manufacturing fighters. The past few months, in which Lockheed has taken over the mile-long F-16 assembly line at Fort Worth, Texas, have "fundamentally transformed the landscape for military aircraft in the US", according Mr Dan Tellep, Lock-heed's chairman and chief execu-

At least two new fighters are expected to survive an urgent Pen-tagon rethink on tactical aircraft requirements. The US air force and US navy have no fewer than four projects under way. Putting all of them into production would break the budget

Priority looks likely to go to the new top-of-the-range fighter, the Lockheed-led F-22 – although probably in reduced numbers - and a new navy variant of McDonnell Douglas's F/A-18 Hornet. These are The US defence industry is undergoing rapid change to adapt to its role in the post-cold war world, says David White

## Survival of the slimmest



the projects most vital for both companies. Other plans for a sophisticated new navy strike aircraft and a multi-role successor to the F-16 may be put off until well into the next

The verdict is expected to be the first result from a so-called bottom-up review, due by late summer. into the full range of US defence requirements.

The new Pentagon team has taken on a big task - especially since it is still only part of a team. Many of the important civilian posts at the department are still unfilled, and only a handful of those named have been confirmed by the

The Pentagon may be making some risky assumptions about what it can pay for within the budget

Senate. Almost five months into the administration there is still an air of improvisation. People dealing with the Pentagon find it exasperating. Mr Lawrence Korb, who was an assistant secretary of defence in the transition between the Carter and Reagan administrations and is now at the Brookings Institution thinktank in Washington, says: "This is the worst I've ever seen."

Lack of assistants is only one of the troubles complicating the task of Mr Les Aspin, defence secretary. Among the others are a heart problem, controversy over gay rights in the military, the aftermath of the 1991 naval flyers' sex rampage known as the Tailhook affair, and military discomfort over the government-wide pay freeze planned next

Mr Aspin's rushed first budget -which he calls "treading water" - is

just a trimmed version of the one he inherited from the Bush administration. Apart from pruning funds for missile defences, the down-to-earth remnant of President Ronald Reagan's far-fetched Strategic Defence Initiative, it has maintained fund-ing levels for all the main armament programmes. The big changes will come in the following three

The budget has alreedy come down from over \$300bn a year et the start of the decade to \$263bn for the coming financial year. Under the final Bush plans this would have dropped, in today's dollars, to about \$250bn in 1997, Clinton administration plans would cut this to about \$230bn. It will be the least the US has spent on defence in real terms since the slack years of the late 1970s. As a share of US gross domestic product - about 3 per cent - it will be the lowest since the second world war, and half what it was in the mid-1980s.

The Pentagon may be making some risky assumptions about what it can pay for within that budget. About 40 per cent of the extra reductions foreseen under the latest Clinton plan come from lower inflation expectations, calculated at 2.5 per cent or less a year. Savings of about \$18bn depend on making the pay freeza stick, with subsequent below-inflation pay increases. And the projections assuma that plans carried ovar from the previous administration are matched by suf-

ficient funding.

The new team already reckoned that it had inherited a shortfall of \$10bn over the 1994-97 period and would need to make that amount of extra cuts, just to make the sums come out.

A panel of three outside experts, reporting back last month, found that the previous tenants had been over-optimistic about efficiency savings and had underestimated some other costs. The panel put the figure at up to \$15bn. Mr Aspin, relieved that there was not a \$100bn black hole as some had predicted, chose to add another \$5bn to his spanding plans from fiscal 1995, rather than order still more cuts.

In e trillion-dollar spending programme, such sums are a drop in the ocean. But Mr Korb at Brookings believes the amount of underfunding is closer to \$25bn.

The experts' panel has also issued two sonorous warnings. One is that, in the early part of the next century, the US will have trouble paying for all the projects now in development. The other is that unit costs will rise. Declining defence business

'Dual use is a valid concept if not carried too far. You can have dual-use computers, but it's hard to think of a dual-use tank'

"is likely to lead to significant increases in the overhead rates of defence suppliers".

This, according to the report, "could lead to unexpected and largely unavoidable increases in existing programmes and elimination of a significant percentage of the cost savings that would ordinarily result from programme ter-

minations". When Martin Marietta's Mr Augustine was working at the Pentagon in the 1960s he had a theory about rising weapon costs. "I pre-dicted that in the year 2054 one tactical aircraft would cost the whole defence budget," he says. "And we're right on track."

Defence manufacturers do not know yet how heavily the axe will fall, but know that it will fall mostly in their part of the budget. The "investment account", covering

procurement, research and develop ment and construction, and running for more than e decade at over \$100bn a year, is expected to suffer a disproportionate share of cuts.

This is despite the likelihood that at least two equipment items not currently budgeted for will somehow be squeezed in: production of the innovative V-22 tilt-rotor transport aircraft for the Marines, a multi-billion-dollar project opposed by the last defence secretary, Mr Dick Cheney, but supported by Mr Bill Clinton during his presidential campaign; and maybe \$3bn-\$4bn for a third Seawolf submarine, just to

keep production going. Something alse will have to give way. In the past the long US budgetary process has provided hope of surrection for cancelled projects. But Dave McCurdy, a leading Demo-crat on the House Armed Services Committee, predicts: "A lot of the programmes are going to stay

he US may also hava to contemplate deeper cuts in the size of its forces, already reduced from 2.17m in 1987 to 1.73m The new administration has indicated s target of 1.4m by 1997 instead of the 1.6m planned under President George Bush. But it may go further still in cutting troop numbers, rather than reduce forces readiness. It would be easier to save money this way - maintaining ammunition and keeping battalions staffed is costly - but any step in that direction is taboo. Nobody wants to return to the "hollow forces" of the Carter era.

But, says Mr Augustine: "We also have to be careful we don't build a hollow industrial base." By this he means a large number of defence factories, producing at e low rate doing little R&D and incurring high overheads. "I think that's a very real risk," he says.

The Pentagon's approach is to try to break down the barriers as much as possible between military and civil industry. "Wa cannot afford to have low rates of production in an entirely different industrial sector, says Mr Deutch.

Its "dual use" policy is meant to show wider economic benefits for the effort that goes into military technology. It has two sides. One is to focus on developing technologies that have commercial as well as military applications. The other is to take advantage of advances in civil technology, breaking down the tangle of regulations governing the military procurement process and buying products directly from the civil sector. This is expected to produce significant savings especially in electronics and software. Inquirers already have a freephone number to call: 1-800-DUAL USE.

Lockheed's Mr Tellep is cautious. "Dual use is a valid concept if not carried too far. You can have dualuse integrated circuits, dual-use computers, perhaps dual-use cockpit displays. It's hard to think of a dual-use tank.

But Mr Augustine can imagine the next generation of battle tank being designed to use a truck engine instead of the current Abrams tank's gas turbine. "Even though it's not the optimum tank, it may be the optimum tank you can produce."

To keep vital defence plants in business, the Pentagon could transfer maintenance work from state arsenals and dockyards to private-

sector manufacturers. It will also count more on government-led foreign military sales, regardless of arguments for restraint in regions such as the Middle East. A sharp decline in sales from the former Soviet Union has

given the US overwhelming dominance in the world market, with arms transfer agreements wortb almost \$29bn last year. Exports are already covering production gaps. The country's sole remaining tank production line, which General Dynamics operates at Lima, Ohio, now lives off Egyptian, Saudi and Kuwaiti contracts.

Foreign sales used to be the icing on the cake for US arms companies.

They have become a necessary part

of the industrial strategy.

## **OBSERVER**

#### **Forked** tongue

Over years of being bombarded with management jargon, such as "Soft-S fronted structure initiating", Observer has developed a rule of thumb. The only thing more dangerous than deciding thet such gobbledegook can't have any meaning is to assume you know what it is.

Take for instance an upcoming phrase increasingly apt to be overheard in trendy executive suites: people being referred to as what sounds like "Hi Macs".

It would be totally mistaken to leap to the conclusion that those so described are either Americans with a cheerful hail-fellow-well-met disposition, or Scottish aristocrats. Nor are they being insultingly likened to putrid hamburgers.

Even seeing the phrase in its correct spelling - "High Machs" - can raise confusion, since it could be taken to mean folk apt to rush around at supersonic speeds.

But the real reference is to people who are highly Machiavellian in deceptively manipulating those around them. Psychologists test this characteristic by asking how far people agree with statements such as: "Never tell anyone the real reason you did something unless it's useful to do so."

Oh, and just in case anyone doesn't already know it, "Soft-S fronted structure initiating" means much the same thing: conning people into behaving as you wish.

#### Low life

■ Time was when being a life president meant something. In return for giving up the keys to the chairman's suite, corporate grandees were rewarded with a title, secretaries, free lunches and continued use of chauffeur-driven

**But outgoing Hammerson** chairman Sydney Mason, one of the grand old men of British property, is not even being allowed to keep his office when he inherits his title after Hammerson's annual meeting today. Indeed, he will be hucky if he can even find his name in future annual reports.

How he must envy Lord King, British Airways' newly created president. One of the rumoured perks of being an ex-chairman of a big airline is e lifetime's free flying on any of the world's main airlines.

#### Dream team ■ The behind-the-scenes

politicking over Jacques Attali's future at the European Bank for Reconstruction and Development is degenerating into farce. Persuading the 59-year-old Ernie Stern, the respected number two at the World Bank, to take the less important number two job et the EBRD is almost as bad an idea as maintaining the status quo.



'I haven't christened anyone John for months

Why on earth recruit a career bureaucrat whose speciality is managing e third world development bank to run e supposedly entrepreneurial type of institution whose prime aim is to work with the private sector? Sir William Ryrie, bead of the World Bank's private sector arm, the International Finance Corporation, would seem better ovalified.

Even worse, offering Stern a megabuck transfer fee is hardly the behaviour expected of an organisation already under censure for its profligacy. Nevertheless if the EBRD's

owners really are intent on bagging

Stern, it ought surely to be part of a move to replace Attali. One possibility would be to recall Citicorp vice-chairman Onno Rudding, the former Dutch finance minister who wanted the EBRD job just as badly as Frère Jacques. Then the EBRD might have the beginnings of a dream team.

#### Out of the hunt

■ When it comes to filling the chief executive's post at Barclays, the NatWest directors John Melbourn and John Tugwell may not be such hot tips as many in the City of Earlier this year, Barclays asked

executive searchers Spencer Stuart to draw up e short-list for the job. The headhunters, however, had e longstanding relationship with NetWest, and accordingly asked the established client if they could take on the Barclays assignment.

NatWest said it had no objection. so long as the headhunter did not feel it faced a conflict of interest which of course was a warning to steer clear of NatWest staff when approaching candidates. Whereupon Spencer Stuart intimated that no one from the Action Bank would be on the list.

#### Oversight

■ Much tut-tutting is abuzz behind the BBC World Service microphones at the absence of former boss John Tusa's name from the Queen's Birthday honours list.

Having been denied a chance of even competing for the job of BBC director-general, Tusa has now failed to get the customary

recognition for a job well done. Former Bush House occupants. such as Gerard Mansell and Austen Kark, picked up CBEs, and some thought thet Tusa might even have been in line for his K. During his six-year stint, the World Service won praise from listeners ranging from President Gorbachev to the Beirut hostages

Admittedly, BBC-types have not been collecting quite so many bonours under the new regime at Number 10. But Tusa has gone on to be master of a Cambridge College, and in his 32 years at the Beeb has probably done as much for public service broadcasting as the likes of recently knighted Michael Checkland, David Frost and Robin Day.

Could it be that BBC chairman Duke Hussey, whose wife is the Queen's lady-in-waiting, somehow forgot to mention Tusa in

#### Soft touch

■ The Bank for International Settlements, the central bankers' bank never known for subsidising lost causes, must have had a particularly good year. For the first time since records have been kept. journalists attending today's annual meeting are being allowed to phone home their reports without being charged for the use of the phone.

nyone who does much busineas in third world cities can empathise with the British investment banker who recently hurled his telephone out of the window of his hotel on Copacabana beach after a tenth failed attempt to make a

For residents of Rio de Janeiro, the ailing telephooe system, while probably a minor problem, provides a fitting symbol for a city where everything is stretched beyond its limits.

The transport system is chaotic, sprawling slums deface hillsides; the bay is polluted almost beyond redemptioo; and chronic unamploymeot bas pushed many into drugs and prostitution. Crime is so rampant that US State Department travel advisories tell tourists not to walk in the streets.

Just as many of Rio's 10m population were giviog up hope, a civic leader bas emerged, pledging to change all this. Since becoming mayor in January, Mr Cesar Maia, a left-wing economist from the Democratic Movement party (PMDB), has propelled Rio into national headlioes. He bas introduced the city's own time zone, and half-jokingly has threatened to issue its own currency to replace the inflation-racked cruzeiro. He closed off the main commercial thoroughfare for a week of open-air concerts by the Moscow Philharmonic and dressed up as a purple Ninja turtle to eocourage children to have vaccina-

Mr Maia believes such stunts are necessary to boost the city's self-confidence and give it a new image. "I want to show that Rio is different from other Latin American cities -

it's playful and rebellious." Behind all the promotion. bowever. Mr Maia is serious. His ultimate aim is to make Rio a "global city" modelled oo Madrid and Barcelona, offering a range of facilities to attract business and tourists.

Initially he wants to bring in foreign and domestic Investment to improve the city's infrastructure, and to privatise public services where possible. to leave the administration free to concentrate on "the big picture". By cracking down on crime and boosting its cultural offerings, he plans to capitalise on the city's spectacular beauty to make the city an

international business centre. To accomplish this, Mr Maia has assembled an internationally respected team of advisers. including Mr Marcilio Moreira Marques, a former federal

## Rio finds a hero

A colourful mayor has brought hope to the city, says Christina Lamb

ecocomy minister, who is in charge of attracting foreign capital aod aid; and Mr Eduardo Modiano, former head of Brazil's privatisation programme. His brief is to put roads, the marina and even the city's renowned carnival into

private hands The mayor and his team face a staggering challenge. Urban planners reckon that Rio's populatioo is three times greater than its housing, infrastructure and employment base can support. More than 1,500 slums aod irregular settlements house a third of its residents. Evidence of the lack of investment in Rio's infrastructure is abundant. Huge pot-

Initially Mr Maia wants to attract investment to improve the city's infrastructure

boles in the streets contribute to frequent traffic accidents. Giaot pits stand as grim reminders that the city went bankrupt in the late 1980s halfway through building a metro

Rio's decline can be traced to 1960 wheo Brasilia became the capital of Brazil. Since then its traditional shipbuilding industry has collapsed and its importance as a port dwindled. As unemployment rose, crime surged. Businesses moved to Sao Paulo, and tourism slumped. Unemployment and crime in turn rose still higher. The syndrome has intensified since the national ecocomy fell into recession in 1989.

It was the issue of law and order that carried Mr Maia to power. When the Earth Summit took place in Rio last June he was lagging in the polls. But the tight security surrounding the conference showed local people how pleas-

ant Rio could be if crime was contained. Afterwards, Mr Maia's ratings rocketed when he said he would use the army if necessary to make Rio safe. To help stem the fall in tour-ism, which has dropped 70 per cent since 1989, he has created a special force of undercover "tourist" police. Dressed in T-shirts and Bermuda aborts,

lts members travel in beacb buggies and on jet-skis.

Mr Philip Carruthers, head of the Rlo botal associatioo, says results are already being seen in terms of fewer tourist muggings. Encouraged by the new anti-crime mood, a Rio judge has imprisoned 14 of the city's main crime bosses, who are under investigation for alleged involvement in arms

and drug trafficking. The state

prosecutor is investigating 15

senior policemen for "illicit

To improve business facilities, Mr Maia has secured the city's first important investment commitment in decades Embratel, the state telecommunications company, has selected Rio as the site for Latin America's first Teleport a sophisticated communications centre which will update the city's telephone system as well as offer office space equipped with satellite technology. Embratel is currently

finance the \$1bn project. But Mr Maia's main focus is oo culture, "I see culture as part of economic policy," the mayor says. "To make Rio work, we need to make it a special place to visit. Top executives do not go to New York just for business - they go to enjoy its cultural offerings."

looking for private investors

and multilateral loans to help

Arguing that the city's natural beauty is an economic asset which must be protected. Mr Maia has sent in bulldozers to "remove" slum dwellings from richer areas. Such actions, while applauded by business men and hoteliers, leave him open to charges from representatives of the slum-dwellers that he is "governing for the rich". The mayor counters that his administration is the first to have provided regular public services such as rubbish collection in slum areas

The collapse this month of a hillside slum in beavy rain and the gunpoint robbery of a visiting American pop group at the airport show how far Rio has to go before it again merits the title "Marvellous City". Rio has not yet decided whether its new mayor is a prankster or a genlus. But there is a new mood of optimism which could be the first step to recovery.

re Britain's privatised utilities making excess profits?

L The question, debated since BT was privatised in 1984, has been brought to a head by tha current Monopolies and Mergers Commission investigation of Brit-ish Gas. The probe was trig-gered mainly by the inability of the company to agree with Ofgas, its regulator, what level of profits was reasonable.

A dispute over profits is also simmering between Ofwat and the water industry. The water regulator has embarked on an elaborate examination of profitability for a review next year of the industry's charges.

The government originally rejected profit controls when privatisations began in 1984 and opted for price caps. The idea was that caps would encourage efficiency as companies would be able to keep the extra profits from cost-cutting. But it became apparent that price caps, reviewed every four or five years, could not be set

without reference to profits. Defining a benchmark for a reasonable level of profits is far from easy. Crude profit figures in themselves prove nothing, as large companies need larger profits than small companies to reimburse greater shareholder investment

Profit increases by utilities also prove little. Last week the airports group BAA. Anglian Water Nortbumbrian Water, and three electricity companie - PowerGen, National Grid and Scottish Hydro-Electric reported higher profits, but the figures still begged the question of whether levels were too high, too low or about right.

The way regulators, utilities and the MMC answer this question is by calculating the "cost of capital" - defined as the minimum a company must pay to raise funds from investors. If a company's return on assets is consistently below its cost of capital, it will be unable to raise new funds. If It is higher, customers are being charged more than necessary. Applying this theory in prac-

tice runs into numerous complexities. Moreover, the ntilities and their regulators have produced widely divergent figures of the cost of capital. Part of the explanation for the differing figures lies in the utilities' interest in proving their cost of capital is high:

that way, they believe, the regulators will allow them to make higher profits. Similarly, regulators, as consumer champlons, have an inceotive to keep prices as low as possible, although this is tempered by

## Too high, too low, or just about right

Hugo Dixon examines the debate over profit levels earned by the UK's privatised utilities

Utilities: finding a fair profits formula 1,972 216 (38) 49 3.1 British Gas 1.054 116 n/a 285 BAA 202 7.3 16 National Power PowerGen 425 115 13 Scottish Power 297 43 Scottish Hydro-Electric 146 533 National Grid r/a 1.5 North West Water 247 South West Water 93 100 Thames Water 251 93 Yorkshire Wate 100 22 Northumbrian Water 69 135

Latest financial year " As at June 10, 1993

their duty to ensure the utilities can finance themselves. The dispute is fiercest in the gas industry, where Ofgas

argues that the cost of capital is 21/4 to 5 per cent after infla-tion, while British Gas believes should be 6.7 per cent for existing assets and 10.8 per cent for new investment. "We are not earning enough. One of the reasons we went to the MMC was because our profits were being squeezed," says Mr Philip Rogerson, British Gas's finance director.

In the water indostry, the discrepancy is also wide, with Ofwat arguing for a figure of 5 to 6 per cent and companies pushing for 91's per cent. "The water companies need to be profitable to invest to meet new environmental standards, says Mr Paul Garrett of the Water Services Association,

the industry trade body. Observers not directly involved with either the utilities or their regulators tend to argue that the right figure for the cost of capital lies somewhere between the extremes. Mr Nigel Burton, an analyst at Warburg Securities, says, on average, it is something below 8 per cent. Mr Simon Taylor, an economist at JP Morgan.

the investment bank, thinks the appropriate figure is 6 to 7 per cent for National Grid and

higher for others. Most regulators and utilities use the same academic model to calculate the cost of capital, called the capital asset pricing model. This takes the interest rate on a low-risk asset, such as index-linked gilts, and adds a premium to compensate for the greater riskiness of buying equities. An adjustment is then made to account for the fact that companies raise funds not just through issuing equity but also debt. which is cheaper.

The problem is that there is disagreement on all elements of the calculation; if different figures are pot into the model, different figures emerge.

There is particular controversy over whether investments in utilities are risky. The regulators argue that they are less risky than investments in other businesses. The products they supply are basic necessities, not short-term fads, and their dominant market positions give them protection from competition. But the utilities say their businesses are high risk because of continual interference by regulators. Even once a figure is decided

for the cost of capital, there is still a question of how to value utilities' assets. This is because regulators wish to compare the cost of capital with profits as a

percentage of company assets. But valuing assets leads to another conundrum. Inflation rules out valuing assets according to how much was actually paid for them - the "historic cost" approach. But valuing them according to how mnch they would cost to replace - the "current cost" approach - can produce surdly high figures.

The most extreme case is the water industry, which was sold to investors for £5.2bn but whose assets in current costs are valued at more than £100bn. If a 5 per cent cost of capital was applied, profits would need to be increased

five-fold (see chart). Ofwat and Ofgas have chosen to cut through this Gordian knot by differentiating between pre- and post-privatisation assets. Pre-privatisation assets are valued according to how much the shareholders paid at flotation, while post-privatisation assets are valued on a current cost basis. But this is of little use to

shareholders and customers,

since published accounts do not disentangle pre and post-privatisation assets. Matters are more difficult with BT, which stopped publishing.

accounts on a current cost basis when privatised. Moreover, figures for single years can be misleading. Brit-ish Gas's 3.1 per cent return in 1992 was depressed by excep-tional factors. Mr Rogerson of British Gas explains that in most years since privatisation

the company has earned

fina

between 6 and 7 per cent. Such complexities lead some to question the the formal approach of calculating the cost of capital. Mr Peter Hyde, an analyst at Kleinwort Benan analyst at Memwort ben-son Securities, says it involves "taking one subjective figure, called capital values, and mul-tiplying it with another subjective figure, called rate of return, to calculate an even more subjective figure".

A less formal method is to look at how well shareholders have fared in practice. This approach, which involves comparing how far share prices have risen since privatisation with the rise in the FTSE 100 index, is set out in the chart. In all cases, the privatised utilities have outperformed the index, but their records vary considerably. The recently pri-

vatised water and electricity companies have done very well with share prices often rising by 100 per cent during periods when the index rose little. BT and British Gas have also seen their share prices rise. But the rises look less impressive given that they were privatised in 1984 and 1986 respectively and the index has also risen sub-

stantially since. The main explanation for the varied performance is that regulators have already tightened the price caps of the companies which were privatised first. BT's cap has been squeezed from the rate of inflation minus 3 percentage points (RP13) to RPI-7:, and British Gas's from RPI-2 to RPI-5. The tighter caps are already having

an impact on profits. By contrast, the more recently privatised electricity and water industries have so far escaped stricter regulation. But reviews of their price caps are under way and it is unlikely they can avoid the

regulatory squeeze forever, When the British regulatory structure was invented, the government hoped to avoid the American debate about the proper rate of return for utilities. It was over-optimistic. The debate is now well under way. It is complex and fraught. It will probably never end.

## THE EDITOR

Number One Southwark Bridge, London SE1 9HL Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

#### Serb leader fails to offer alternative

From Sir Jack Stewart-Clark

Sir, Radovan Karadzic, leader of the Bosnian Serbs, writes (Personal View, June 9) about the Moslems in Bosnia. He asserts that no Serb can deny that they need a secure home in Bosnia. Is it not strange, therefore, that the Bosnian Serbs, with their self-styled Serbian parliament, refused to allow Mr Karadzic to put his signature to the Vance-Owen plan, which allowed for the Moslems to have just such a secure home?

At no time have the Bosnian Serbs come forward with a just alternative. The truth of the matter is that Slobodan Milos evic and Vojislav Seselj, who have between them almost total power in Serbia, are intent on carving out a greater Serbia and the Bosnian Serb regime under Karadzic is a willing accomplice to this. A greater Serbia in their eyes includes all of Bosnia-Herzegovina, the occupied portions of Croatia, Kosovo and Macedonia. Possibly the Moslems may be allowed living space within this but only under the boot of

Karadzic describes the Bosnian Moslems as "our Slav brothers". Let him and the Serb leadership come forward with a humane and realistic plan for these brothers, which will enable them to live in peace and freedom. The world may then start believing that his words have some substance and are not another smoke screen behind which further ethnic conquests may be made Jack Stewart-Clark, MEP for East Sussex. 97/113, Rue Belliard,

Vote on it

From Mr Philip Mickelborough.
Sir, The decision on whether
there should be a referendum on the Maastricht treaty has too fundamental an effect on Britain's constitution to be left to the politicians. There should be a referen-

dum on it. Philip Mickelborough. 39 Kingsbury Street, Mariborough, Wiltshire SN8 1JJA

## Call for a royal commission on manufacturing industry

From Mr Roger Lyons.
Sir, Zeneca's current difficulties with its share issue ("Dealers concerned at Zeneca ontlook", June 11) is just the latest example of the chronic short-termism that plagues British industry.

Here is a company at the leading edge of scientific innovation, in an industry which requires long-term investment in R&D, but which also produces long-term rewards, struggling to find the capital it needs. Contrast this with the recent stock market feeding frenzy in property where inves-tors have been fighting to get a piece of the action.

How much longer are we going to have to put up with our future as an industrial nation being undermined by the operation of a completely inadequate financial system? How much longer are we going to see the share of Britain's gross domestic product pro-duced by manufacturing continue to decline? While some sectors of our manufacturing are rightly admired, overall it is now simply too small. This is a long-term problem

that requires long-term solutions and a change in attitudes. The emerging consensus on the importance of manufacturing now needs to be turned into practical action to support and sustain our industries. It is for this reason that MSF has recently proposed to the prime minister the establishment of a royal commission oo manufacturing industry. Its task would be to investigate and report oo the role that government can and should play in supporting

manufacturing industry; lessons to be learned from abroad; structural changes needed to overcome the dominance of short-term thinking in the link between finance and productive industrial investment; establishment of an industrial system based on partnership between management and employees; and the most effective means of turning innovation, research and development into manufactured goods.

There has been a large number of royal commissions this century, but not one on manufacturing - the foundation of Britain's national wealth. It is time this was remedied. Roger Lyons, general secretary. MSF Union, 64/66 Wondsworth Common North Side, London SW18 2SH

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## Predictions on share prices, please

From Mr Gordon Mitchell.
Sir, The improvement to the FT weather service is greatly welcomed. Particularly useful are the forecast temperatures for the day of publication in the leading ceotres of the world. Your previous service

giving temperatures at noon on the previous day was, after

Service. The previous day's figures are, after all, an esoteric

all, of interest to just a few time travellers. Perhaps the time is now right to extend this logic to your excellant London Share

eral reader, by the inclusion of forecast share prices at noon on the day publication. No doubt, the actuaries you use for your share indices could easily cope with such a short-term forecast. interest. The value of your Gordon Mitchell. newspaper would be immea-surably increased, for the gen-146 Manor Green Road

Epsom, Surrey KT19 8LL

#### Aims of Taiwanese airline

From Mr Frank Hsu.

Sir, I offer some clarification to your article speculating on the possible advancement of government negotiations for the development of commercial air services betweeo Taiwan and mainland China ("Business pulls Taiwan closer to mainland", May 21).

Your naming of certain cities as possible destinations for new air routes from Taiwan Beijing, Shanghal, Xiamen, and Guangzhou - is conjecture, and will remain so until such time that the political sit uation change

That EVA Air may serve these, or any other cities in mainland China, must therefore be seen as speculative, and our decision would be made solely on commercial grounds. It is quite wrong, however, to suggest that EVA Air would

international scheduled services to develop new air services between Taiwan and mainland China. Our international route development remains central to our growth strategy.

It is untrue also to state the EVA Air's chairman, Mr Y F Yang, is "an avowed sup-porter" of Taiwan's Democratic Progressive party. He has never been affiliated with any of our political parties.

Finally, your article began by stating that EVA Air will have five new Boeing 747-400 aircraft before the end of this year. In fact, we shall have Frank Hsu.

EVA Air. EVA Air Building. 376 Hsin-nan Rd, Sec 1, Lechu, transfer aircraft from existing | Taoyuan Hsien, Taimon

From Mr Walter Wright. Sir, You may be right, over all, to urge the limiting of directors' rolling contracts to not more than 12 months ("Pay off punch" June 8), but the longer ones do have their legitimate uses

I recently pointed an accusing finger at a non-executive company chairman who had raised from three to five years the contracts for this top two executive directors. He patiently explained that he was anxious to retain the services of the two executives concerned for as long as possible as they were important to the company. There was no ques-tion, in this case, of a possible golden parachute. Walter Wright. 188 Court Road

Orpington, Kent BR6 0PY

Corporate Jets Limited (HTF2), 3 Bishop Square, Sr. Albanz Road West, Hatfield AL10 9NE, Sugland, UK fax: (9707) 253807. USA fax: (703) 4061128.

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the motorway and even langer check-in times

standing problem has been the corporate jet

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better get used to it.

delays to do the same.

Holding on to directors

## FINANCIAL TIMES

Monday June 14 1993



Selection seen as watershed in country's politics

## Turkey picks economist as first woman premier

By John Murray Brown in Ankara

MRS Tansu Çiller, a 47-year-old academic economist, will he sworn in today as Turkey's new prime minister. She becomes the first woman to lead the predomioantly Moslem country, and one party delegate said: "She is the only candidate who can represent

Turkey in a European context."
Having resigned as economics minister last week to contest the leadership of the conservative True Path party (DYP), Mrs Ciller emerged unchallenged on the second ballot of 1,169 DYP delegates. She had fallen just sbort of an absolute majority against two other contenders in the first round. Mr Ismet Sezgin, interior minister, and Mr Koksal Toptan, educatioo minister, then

The new premier succeeds Mr Suleyman Demirel, whose accession to the presidency last month created yesterday's leadership contest. With the death in April of then President Turgut Ozal, and Mr Demirel as president, Mrs Ciller's election marks a watershed in Turkish politics and the handover to a younger genera-

First woman PM must reforce party image. ...Page 5

Her emergence is not likely to signal a great shift in Turkey's traditional pro-western foreign policy, although she is expected to accelerate economic reforms. Yesterday she restated her promise to speed up the privatisation of state companies.

A wealthy Istanbul economics professor, Mrs Ciller is seen as the party's best hope to restore its tired image ahead of the vital municipal elections next year and the general election which must be held before 1996. She told delegates meeting in an Ankara sports stadium that in voting for her they were "writing the first words on a sheet of new white paper". A relative unknown in DYP ranks, who entered parliament only at the last election, Mrs Ciller owes her rise to Mr Demirel, who picked her as an economic adviser. How-ever, the president, who immediately sent his congratulations. will need to counter a public

With most of the cabinet also thought to have voted against her on the first ballot, Mrs Ciller will quickly have to assert her

impression that he opposed her

candidacy.

control over the party machine. There was also some doubt last night over the future of Mr Rusdu Saracoglu, the central bank governor with whom Mrs Ciller has disagreed over her anti-inflation policy. Mr Sara-coglu was a pivotal figure in the economic reforms of the 1990s.

## Italian bank reform set to assist troubled companies

By Heig Simonian in Milan

ITALY'S banks have been given the go-ahead to take stakes in industrial companies, in a step aimed at assisting privetisation and bailing out troubled private

Commercial banks will be able to own up to 15 per cent of industrial companies directly, provided the stakes do not damage their profits. The size and number of equity stakes will be limited by criteria set by the Bank of Italy, based on a commercial bank's size and type of business.

Large commercial banks will not be able to invest more than 6 per cent of their capital in a single stake, and not more than 40 per cent for all their industrial participations.

The plan to reform one of the central pillars of Italy's 1936 banking law, made by the central bank last month and approved by a cabinet committee on Friday night, takes the country's banking rules closer to the German

The long-discussed change has been accelerated by the severe debt crisis faced by a number of Italian companies. Rescue talks are under way between Ferruzzi, Italy's second biggest private company, and bank creditors, while creditors are negotiating a restructuring of the Aga Khan's Ciga hotels chain. Ferruzzi and Clga have debts of L31,000hn (\$20.9bn) and well over L1,000bn respectively.

Reform of banking rules could also ease the government's privatisation plans.

Allowing the hanks to take stakes in privatised companies could help overcome liquidity problems on the small Milan stock exchange and provide the government with much-needed cash to curb the huge budget def-

Italy's privatisation pro-gramme, involving the disposal or flotation of large swathes of

the state's activities in industry energy and financial services, has had a slow start. Although handicapped hy domestic political uncertainties, disposals have also been held back by limited

Some observers fear reform of the banking law could put pressure on state-owned banks. which dominate the financial system, to buy up privatised assets. A senior Italian official bas confirmed the government has reached a compromise with the European Commission on reforming new laws on securities trading to bring them into line with EC rules.

Rome will alter Its controversial law, named after the Societa di Intermediazione Mobiliare, the new form of securities broker, to conform with EC rules on freedom of establishment and the free provision of services.

Italy to sell financial services group, Page 15

## **Domestic** hitch for Clinton's Supreme Court plan

WASHINGTON'S newest and most virulent disease - acquired household help payments deficiency syndrome – was yester-day presenting complications for President Bill Clinton's likely choice for the Supreme Court.

The White House confirmed US media reports that Judge Step-hen Breyer of Massachusetts and his wife had for several years failed to make social security payments on an elderly woman who was a part-time home help.

They had apparently made back payments and paid a penalty earlier this year following revelations in the cases of Ms Zoe Baird and Jndge Kimba Wood, respectively nominated and considered by Mr Clinton for the position of attorney general.

The president was said to have been impressed by Judge Breyer, chief of the federal appeals bench on the Boston circuit, at a White House lunch on Friday. No announcement was then made to allow for last-minnte hackground checks, but the Breyers were asked to stay on in the Washington area for a few days and the other leading candidate, Mr Bruce Babbitt, the interior secretary, said he was content in his present position.

There was no early word yes terday from the White House as to whether Jndge Breyer's nomination was now in doubt. But one ohvious difficulty, instantly alluded to by Mr William Cohen, the Republican senator from Maine, is that nominating him could prompt the widespread perception that a donble standard is applied to male and female candidates for high

During the Baird and Wood controversies, it was frequently alleged that no male nominee would ever have been subjected to inquiry about the affairs of his personal household. Two male cabinet members - Mr Ron Brown at the Commerce Department and Mr Federico Pena at transportation - were confirmed in office after disclosing that they had failed to pay the relevant taxes on their domestic employment.

There are shades of difference in the three household help cases. Ms Baird and her husband, a law professor at Yale, had hired a Peruvian conple, apparently knowing that it was illegal at the time to hire undocumented lmmigrants. Jndge Wood and her husband, a journalist at Time magazine, committed no technical breach of the law, but were canght in the Baird backlash.

Judge Breyer and his wife, a psychologist, are said not to have paid social security payments which they thought unnecessary because their household help, a US citizen, was already old enough to be receiving social security benefits.

## THE LEX COLUMN Stable conditions

at least as painful as in Germany, it

should make the most of the opportu-

nity. The change in sentiment towards

the franc this year is a reminder of

window of opportunity than the start

of a new era. If 10-year French bond yields fall below German, it will be

The inability of the water companies

to make a decent return on unregu-

lated business has been a notable fea-

ture of the results season. The compa-

pies' response is that investment in

areas such as waste disposal and pro-

cess engineering is a hedge against

tougher regulation after next year's

review. Whether or not that proves

correct, the relationship between the

regulated and unregulated sides of the

business should be as transparent as

On the surface, water companies

work under stricter rules on cross-sub-

sidies than other privatised utilities.

Licence amendments introduced last

year explicitly outlawed any form of

subsidy passing across the regulatory

divide. But the system of policing so

start to impose again.

time to think again.

Water sector .

Controlling market prices around the thorny problem for investment banks. Any attempt to support the price of an issue is a form of market manipula-tion, though it is often justified on the grounds that it helps maintain an orderly market. Such stabilisation is now controlled by strict SIB rules which forbid, for example, the lead manager to buy in securities above their issue price. So in the Zeneca rights issue, the manager Warburg, which has been a notable bidder for shares above the 600p issue price, is presumably acting for clients, since buying for its own book would be difficult to distinguish from stahilisation.

The rules on stabilisation are, how ever, quite specific and focus on the lead manager buying securities immediately after the issue. In the case of the BT3 offer, Warburg is encouraging institutions to buy shares ahead of the float hy offering preferential alloca-tions to those that buy, while penalis-ing excessive sellers. This will tend to support the price and smooth the absorption of the issue. in that sense at least it is analogous to stabilisation, for while the lead manager is not directly supporting the price, it is

encouraging others to do so. If the incentive proves popular, it could significantly influence the BT share price. With stabilisation, at least the members of the syndicate know the extent of intervention, whereas in this case not even the lead manager is fully aware of the market impact of the measure. Currently there is a grey area hetween acceptable smoothing and an unacceptable false market. Perhaps the SIB should consider including such incentives in wider stabilisation rules to ensure that the market is transparent, as well as orderly.

#### Currencies

The message from the money markets is that holding D-Marks is now more risky than holding French francs. While the ubiquitous Mr George Soros might be blamed for spreading the notion that the D-Mark is dne for a period of weakness, other factors are at work. The dire state of the German economy undermines faith in the Bundesbank's ability to defend the D-Mark. Supportive statements from the authorities last week notably failed to lift the currency.

With the D-Mark wounded, France has a chance to cut rates without worrying too much about strains within the ERM. Since recession in France is

far has been anything but footpring By publishing new guidelines or transfer pricing last month, Ofwat Franch 3-month interbank rate minus recognised as much. The divident German 3-month interbank rate (%) paid by the utility companies is dien quoted parents remain a grey mis Northumbrian drew 221.8m from in utility last year, hut paid out rather less to shareholders. Its unregulate

husiness lost money.

All credit to Northumbrian for reporting the dividend figures with its preliminary results. Other was companies would do well to follow suit. One can only hope the regulation takes such transfers into account when setting pricing limits for the second half of the decade. If Ofwat gels its sums right this time around, these will be precious little left over to per up the line.

Franc.

#### **Barclays**

how fickle the foreign exchange mar-ket can be. Should the German eco-It is now more than three months since Barclays cut its dividend and nomic slide prove less protracted than the pessimists helieve, or should promised to find a new chief executive France's good intentions on inflation to work alongside Mr Andrew Buxton the bank's chairman. Since then, then has been no news on the chief execu be seen to waver, the D-Mark could tive, but the share price has risen by 20 per cent. There is a risk that this It is far from clear that the D-Mark has been deposed as the anchor of the ERM. French bonds still yield more recovery will calm the institutions than German bonds at longer maturidown. They are more inclined to make a fuss when they are losing money, hut a responsible role in corporate ties. That reflects the short track record of the Bank of France as a paragon of monetary virtue. Until it can rival the credibility of the governance requires a consistent longer-term approach. The installation of a better structure at Barclays is a proj-Bundesbank over a long-term horizon. D-Mark weakness looks more like a ect worth seeing through.

It would be unfair to expect Bar clays to rush. The choice is a difficult one but it gets harder as time goes by. Not only would a new chief executive have to work with existing senior managers who may be miffed at the appointment of an outsider. The better Mr Buxton is established as executive chairman, the harder it will be for a new chief executive to carve out a meaningful role - and the greater the risk in accepting the job.

If it is not to face the loss of more top executives, Barclays needs a candidate of conspicuously higher calibre than the average senior clearing banker. One answer might be to look for a non-banker, but it would make more sense to appoint such a person as chairman. Sir Peter Walters became chairman at Midland, while Mr Brian Pearse, the hands-on banker, was made chief executive. The task at Barclays might be easier if the bank was made more manageable by splitting it up. BZW, for example, is plenty big

## **Somalia**

Continued from Page 1

of burned-out ammunition stockpiles. Mr Ato claims he stored only fuel and spare parts at his

Gen Aideed was also at the site. "This is an unjust and criminal act against Somali people," he said. He called on the world to condemn the human rights violations committed by Pakistani troops. He said he would not hand over those responsible for the June 5 killing of Pakistani troops. "I will remain with my people," he said.

**Europe today** 

Five-day forecast

Isles cooler, drier air will move into north

western Europe. It will be fair in Norway,

Denmark, eastern England and Scotland and

it will be overcast in Ireland and western and

central France with even some rain later as a warm front moves in from the Atlantic ocean.

the Commonwealth of Independent States.

Around the low pressure, it will be overcast

in the northern half of Europe, it will be rather cool and unsettled this week. There will be some fair periods, but rain will also fall, as

depressions move in from the Atlantic. Over

Balkan states, there will still be some show

the continent, the temperature should become warmer by the end of the week. Over the

## Japanese reluctant to move

found that Japanese companies are reluctant to get involved in this sort of operation. Certain unpopular decisions have to be

Japan, where controversial,

"The companies were basically restructuring cases, and we have taken, and they don't like doing

that," Mr von Stackelberg said. "The US husiness mentality is completely different. They are

Continued from Page 1

friction-creating decisions, such as staff cuts, are very slow to be

very interested at huying in

cheaply and turning a company around. Japanese companies are extremely risk averse."

FT WORLD WEATHER

The Treuhand also discovered that business contacts are not made through advertising in the Japanese financial press. Mr von Stackelberg said that there was "almost zero response" to a series of advertisements, but "you have to pay a certain price to gain

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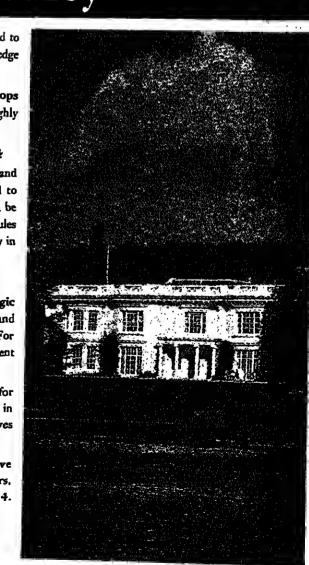
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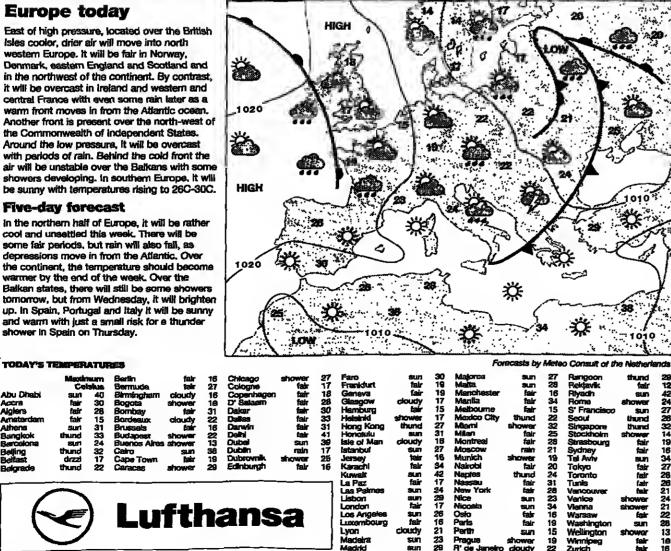
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#### SECTION III

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Monday June 14 1993

As a result of its policy of structural adjustment, Tunisia has become a favourite of the International Monetary Fund. It is also a pilot country for certain United Nations social programmes. Mark Nicholson and Francis Ghiles report

## An economic balancing act

NORTH Africa's smallest an average 6.6 per cent in real nation looks to its neighbours with a peculiar mixture of pride and unease. Tunisia's ministers, and swelling class of businessmen and women, point with self-congratulation to the country's recent economic successes, its political stability and its distinctively western social policies. The ogre of Islamic fundamentalism has, they claim, been quashed.

A course of near-Europeanisation is firmly plotted. If only the same held next door to the west, where Tunisians are profoundly disconcerted by the threat of incipient guerrilla war in Algeria, or to the east where Libya continues to ply its own unpredictable, pariah's

Such regional uncertainties appear only to harden the govermnent's determination to set a better, meaning a more western, example. The regime of President Zine el-Abidine Ben Ali, which calmly ushered out, on the pretext of "senility", the post-independence leader Mr Habib Bourguiba in 1987, holds as its primary ambition nothing less than laying eventual claim to a full place in what it hopes will be an expanded European economic space.

Much has been achieved. Seven years into International Monetary Fund and World Bank guided structural adjustment. Tunisla's increasingly open economy has grown by

terms over the past three years. Absolute poverty has shrunk, according to official figures, from 30 per cent of the population in the 1970s to 6.7 per cent today. As a legacy of Bourguiba's progressive birth control policies, the population growth rate has diminished to a regionally unparalleled 1.9 per cent, and the country is set to reach replacement rate for its economic population in 2025, by which time there will be around 12m Tunisians.

Socially, too, Tunisia aspires to European norms. Perhaps most important is the role accorded to women, who enjoy better rights to divorce, abortion and general equality before the law than their counterparts in any other Arab country - again a legacy of the Bourguiba era, Tunisia's association of women managers has 2,000 or more members.

Such achievements have made Tunisia a favourite of the IMF, and a pilot country for certain United Nations social programmes. But they have been won in a manner which has brought the government little praise for its political strategy.

in testimony last month before the US House foreign affairs committee, Mr Edward Djerejian, assistant secretary responsible for Near East Affairs, praised Tunisia as a "case study of the positive



reforms," but voiced "serious concerns" about human rights and political freedom. "Tunisia has dealt too harshly with some of its political opponents," he said. "Tunisia's human rights record has been marred by credible claims of torture."

These claims were raised particularly by Amnesty International following the government's arrest and detention in May 1991 of almost 300 alleged members of the now outlawed al Nahda Islamic party, whose leader, Mr Rachid Gannouchi, is now seeking political asylum in Britain.

The group was accused of plotting the government's over-throw and planning to attack the president's aircraft with a Stinger anti-aircraft missile. But the clampdown followed

regime at the rising Islamic challenge in Algeria and the burning of two night watchmen at the premises of the ruling party. In the view of most western diplomats in Tunis, the government simply decided to come down as hard as possible, as soon as possible, on what many consider to have been at best a nascent threat. "They wanted to crush the movement while it was still

inside the egg," says one.

The government, and Tuni-

sia's middle classes, profess themselves confident that, for the moment, whatever fundamentalist threat there was has been summarily dealt with. Whatever residual popular support al-Nahda might still have almost impossible to judge. Diplomats quote support ranging from 13-20 per cent in the



of the modern school of Tunisian art.

last elections, where independent candidates backed by al-Nahda were free to run. While the government keeps a tightly policed clamp on any poblical manifestation of Islam, however, estimates of present fundamentalist sympathy are anecdotal surmise.

In fact, the government's weapons against political Islam are not merely oppressive. Its championing of women is one attempt to create a powerful social pillar of resistance against what it regards as "hackward" Islamic thinking.

Among other attempts to attack the possible social causes of fundamentalism, the ministry of social affairs is also, creating numerous can-tres of "social service and integration". These are being set up in places of relative poverty and deprivation to nip "delinquency" in the bud and better to understand and address its causes. In Algeria and Egypt social policies have been left to the fundamentalists," says one official. "That will not happen

But the greatest single weapon, the government hopes, will be economic prog-ress and the delivery to Tunisia's already large middle class some tangible rewards from to around 2 per cent of GDP

the late 1980s, has freed a majority of producer and consumer prices, trimmed subsidies, begun to liberalise financial markets, freed constraints on most imports and courted with increasing zeal foreign investment, levels of which it hopes to treble over the next three years.

It has also begun preliminary negotiations with the European Community, with which Tunisia does almost 80 per cent of its trade, towards a comprehensive co-operation accord to improve substantially on the financial protocols and quota agreements which at present determine its links across the Mediterranean.

The key to its success will lie in achieving its ambitious inward investment target. To keep pace with its growing workforce, Tunisia needs to create more than 60,000 jobs a year - and more if it is to make inroads on unemployment officially calculated at 15 per cent. "This growth is possible," says one banker, "but only through marginal investment, and this can come in sufficient size only from over-

The difficult task for Tunisia's technocratic ministers will be to attract this investexpand, and pay for, social pol-icles which are considered both a political imperative and the lation's increasingly middle class aspirations. For the moment Tunisia competes directly as a low wage economy with its North African neighbours, notably Morocco, eastern European countries and, in some industries, southeast Asia. But, says Mr Nouri Zorgati, the finance minister: "We do not want to break records of competitiveness by sacrificing social standards.

The government is determined to improve its network of social policies, including, for instance, a minimum wage which rises in line with inflation. At the same time it cannot afford to lose competitive ground to the countries of eastern Europe.

To that balancing act should be added, in the minds of many Tunisians, an additional political imperative: that of taking greater steps towards real democratisation while at the same time allowing the country's press greater freedom. At present, President Ben Ali's ruling party, the Rassemblement Constitutionnel Democratique, holds all 141 seats in the country's parliament and keeps an iron grip on the polit-

Talks between Mr Hamed Karoui, the prime minister, under way with the aim of ensuring at least some non-RCD representation after gen-

#### IN THIS SURVEY

Three seasons of bountiful harvests have nelped boost the economy; Key facts; Map

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New age dawns in old town; Covers come off real

Women escape Islam's past; The unattractive side of

Editorial production: Roy Temp

government has conceded the principle of allowing some seats in the chamber to be elected through proportional representation, the rest firstpast-the-post. This, it is believed, could return 10-20 opposition MPs. "The government wants to create an opposition which is both credible, and controllable," says one diplomat, "and that won't be

But some critics in the country believe the government's present efforts will fall far short of creating truly representative opposition, accusing the government of maintaining a "monochrome" parliament which does an injustice to the sophistication of Tunisia's educated electorate and to the kind of debate over its economic reforms many consider vital. "You can't talk of eco-nomic liberalism and continue with political dirigisme," says one critic, who prefers to remain anonymous. "The model of Pinochet-style development is dead."

These critics understand the difficulty of opening up the political system when the chief beneficiary could be Islamic militants. But many argue that the government will be able to carry through the next difficult only if these can be fully debated in a freer press and by a more representative parlia-

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THE SUNNIER SIDE OF THE MEDITERRANEAN IS NEVER OUT OF SEASON. JUST 21/2 HOURS CLOSE

SO FAR the gods have smiled upon Tunisia's economic reform programme. Or, perhaps more accurately, rained

Four growing seasons of good rain and correspondingly bountiful harvests have, as much as anything else, helped Tunisia raise GDP hy an average of 6.6 per cent a year over the past three years. Further good rains promise also to lift this year's growth above government budgetary forecasts of 2.9 per cent.

Tourism receipts have been equally buoyant, rising 34 per cent last year to around DT1bn as the industry bounced back from its reverse during the Gulf war - a rebound which largely accounts for the disproportionately hig 8.4 per cent rise in GDP for 1992 over 1991.

But Tunisia's harvests, tourist crop and, indeed, yields from all other sectors of its economy need to be abundant. The government, in its eighth and present development plan, has stencilled in an annual average growth rate of 6 per

Tunisia's vulnerability to Europe's economic malaise is evident

cent a year to 1996. Only at that rate, the government estimates, can the economy deliver the 313,000 new jobs the labour market will demand

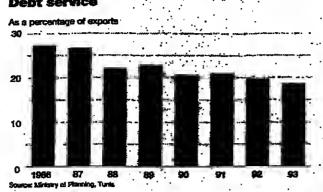
over the period.

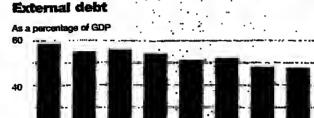
That target is ambitious for at least two good reasons. The first is that it must be achieved by export-led growth into the teetb of a recession in Europe, which at present swallows more than 77 per cent of Tuniond is that this growth must also come as Tunisia's structural adjustment programme begins to cut more deeply into the softer underbelly of Tunisian industry.

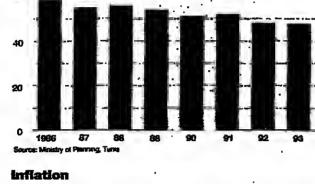
Tunisia's vulnerability to Europe's economic malaise is already becoming evident. Even with 1993's hanner growth figures. Tunisia's merchandise trade deficit widened 55 per cent to DT2.1bn; exports rose only 4 per cent against an 18 per cent rise in imports. Already this year, provisional figures suggest exports have risen only 0.3 per cent in the first three months while imports are up 10.2 per cent.

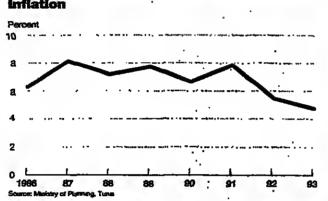
A big surplus in Tunisia's services is likely to offset much of the merchandise trade deficit, with tourism revenues Three seasons of bountiful harvests have helped boost the economy, says Mark Nicholson

## Reform programme as right as rain









in particular expected to grow by as much as 18 per cent. But some western economists believe Tunisia is likely nevertheless to see its current account deficit exceed last year's figure of DT722m in

The weakness of Tunisia's main markets may also have the effect of worsening the damage to its less competitive industries wrought by the continuing structural adjustment programme, now in its seventh year, "The effect of the reforms would have been quite small had there been no international crisis," says Mr Nouri Zorgati, the finance minister. Unfortunately more firms will be affected than might have been the case - and sadly above all in textiles".

Mr Zorgati reckons that some 10 per cent of the coun-

try's hundreds of garment manufacturing companies could be directly at risk as Tunisia continues to dismantle import, tariff and price controls under its International Monetary Fund and World Bank guided reforms. As part of those reforms, the World Bank is to commit a line of credit worth \$100m, to be disbursed through the banking sector, to help alleviate some of the pain among less competitive companies.

This restructuring process is already well under way indeed, Mr Mustapha Nabli. planning and regional affairs minister, says the process should be almost complete by 1994. Already, he says, Tonisla has freed 87 per cent of pro-ducer prices and half of consumer prices. Some 85 per cent of imports have been freed of restrictions, with the remainder due to be freed by 1994. Tariffs, meanwhile, have been cut from pre-reform levels exceeding 200 per cent in some cases to an average of 43 per

Nevertheless, the toughest effects of these reforms are still to come in many cases, and some of the most sensitive barriers remain to be dismantled. For one thing, some western economists calculate that although 85 per cent of imports have been freed from restrictions in total, restrictions have been lifted entirely on only 30 per cent of imports which compete directly with local prod-

Some additional tariff barriers also remain. As a temporary and transitional cushion to some sectors of the economy the government in 1992 introduced a phased and diminishing additional tariff on some goods falling 30-20-10 per cent over three years and disappearing by 1995. Furthermore, a "temporary" 5 per cent import surcharge introduced to help cope with the economic shock of the Gulf war remains in

Nevertheless, there is no question either of the government's resolve to push through the full gamut of liberalising reforms, albeit at a pace which it feels it can politically afford. or of its success in managing those reforms already under-

Area	16	54,150 sq kr
Population	8.37m (19	992 estimate
Head of State	Zine 51-At	Xigane Reu W
Currency	Т	unisian dina
Average exchange rate	1992: \$1	≖ DT0.8859
ECONOMY	1991	1992
Total GDP (Sbn)	12.013	13.25
Real GDP growth (%)	3.9	8.1
GDP per capita (DT)	1,461	1,639
Components of GDP (%)		
Private consumption	63.4	62.1
Government consumption	17	16.3
Exports	39.5	38.7
Imports	-44.9	-45.0
Consumer prices		75.0
(% change pa)	7.8	5.5
Unemployment (% of lab force)_	15.6	15.8
Public sector debt as % of GDP.	26.7	34.2
Reserves minus gold (DTm)	638	852
Current account bal (DTm)*	-527.3	-662.3
Exports (DTm)	4,744.7	5,311.9
imports (DTm)*	5,392	6,173
Trade balance (DTm)	-647.5	-1,023.5
Main trading partners	_	
(1991, % by value)	Exports	Imports
France	25.1	26.0
Italy	19.5	17.4
Germany	16.3	14.3
Belgium	6.2	8.6
EC	76.0	71.6
Maghreb Arab	8.7	3.8

KEY FACTS

taken. Subsidies, for instance, have been trimmed substantially from around 3.3 per cent of GDP two years ago to a little over 2 per cent. Further cuts in basic subsidies are being exam-

On the revenues side, the introduction at a stroke in 1988 of value added tax, combined

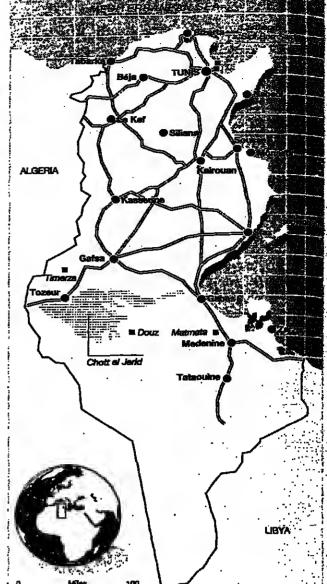
Tunisair is one of the state interests potentially under the hammer

with a complete overhaul and rationalisation of income and corporate taxes has seen the tax take rise considerably from \$400m in 1991, for instance, to \$590m in 1992. Top marginal tax rates were cut on income tax to 35 per cent from 68 per cent, and on corporate tax also to 35 per cent from 45 per cent. but the coverage increased substantially while

in the words of one banker. making the whole tax structure "brilliantly clear". The budget deficit, as a

result, has slimmed from 3.9 per cent of GDP in 1989 to an expected 2.3 per cent this year. The figure is expected to fall by 1992, the end of the present plan, to 1.2 per cent. As another measure of the government's disengagement from the economy, the government's budget as a share of GDP has fallen from 40 per cent in 1989 to 35 per cent this year.

A privatisation programme has begun with the sale of more than 40 state-held interests, although the World Bank and IMF are understood to be pressing the government to accelerate the process. Among the bigger state interests potentially under the hammer Tunisair, the national carrier. However, Mr Tahar Hadi Ali. the transport minister, says that for the time being the



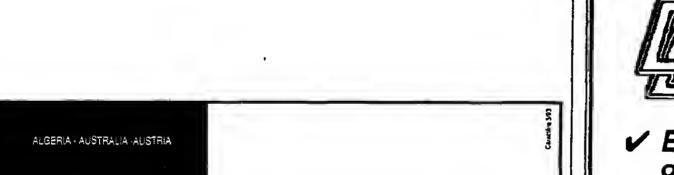
sale of up to 10 per cent of the airline's stock is being "prudently considered".

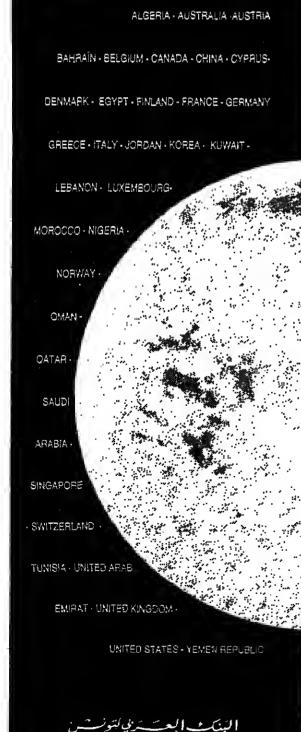
The one area where perhaps most remains to be done is in the development of Tunisia's banking industry and, more broadly, of its capital and financial markets. The latter, at present, extend little further than the interbank market and the country's small bourse, on which only 16 companies are

The financial system has been given a considerable shake-up under the post-1987 administration, to clear away many of the dirigiste cobwebs accumulated under the more collectivist Bourguiba regime,

Central Bank controls on bank credit and investment licencing have been removed. interest rates have been largely freed to the market, bank lending rates liberalised with a fixed margin but no ceiling on maximum rates. All remaining lending and deposit rate restrictions are set to go next

But the country's numerous domestic banks, many of them laden with bad debts to companies of dibious competitiveness, still have far to go almost certainly hy way of mergers, recapitalisations and restructurings - before they will be at ease in Tunisia's fast-opening economy





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#### TUNISIA 3

TUNISIA does not leap to mind if one is compiling a list of the world's tax havens and offshore banking centres. But it is at least 17 years since the first offshore banks opened for business in Tunis, and the tax advantages are the equal of most of its better-known peers: Bahrain, Cyprus, the Channel Islands, for instance. So why is

Tunisla so little known? The question baffles some ministers, who argoe that Tunisia not only offers all the usual offshore banking perks, but good infrastructure, close proximity to southern Europe, a highly convivial and congenial lifestyle and more sides. Yet, there are only six offshore banks established in Tunis.

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The matter also puzzles some of the bankers. They believe part of the answer is government reluctance to sell Tunisia hard. "The government wanted to be able to give everything possible to foreign investors into the country, through the offshore banks," saya one banker, "but without attracting any of the negative aspects associated with tax havens elsewhere.

NOTHING is more vital to Tunisia's economic ambitions than substantially raising levels of direct foreign invest-

In this respect, Tunisia is being ambitious. To succeed in keeping GDP growth at a real 6 per cent a year until 1996, the end of the present development plan, the government has set itself the target of tripling inward investment, outside the hydrocarbons sector. from around \$70m disbursed a year to at least \$200m.

Only growth at that pace will create the additional 5,000 to 10,000 jobs a year needed to accommodate annual entrants to the workforce. And, in the view of many bankers, only foreigo investment in export industries can generate this.

There is nothing new about Tunisia's investment drive, which began in earnest during the early 1970s when a previous government encouraged the creation of "non-resident" exporting companies through tax Incentives and foreign

exchange privileges. But with the arrival of President Zine al-Abidine Ben Ali and the post-1987 changement, with its attendant flurry of liberalising economic reforms, came a change of gear.

Mark Nicholson considers whether the country will emerge as North Africa's natural banking centre

## Offshore banks offer window on the world

Tunisia's offshore banks are there, essentially, to serve the Tunislan economy, runs this view. And for a host of largely external reasons, the sector has never quite fulfilled the more global amhitions held out . for it hy the government

Bahrain had comfortably wrested Beirut's mantle. Offshore banking there was fuelled both by the surge of petrodollars to recycle and by the need to finance Saudi Arabia's voracious appetite for expansion. Tunisia, out on a

The sector has never quite fulfilled the more global ambitions held out for it by the government which passed Tunisia'e first offshore banking law in 1976

which, in 1976, passed Tunisia's first offshore banking law. This law, as much as anything, aimed to offer a Tunisian shelter for fugitive banks and capital fleeing the civil war which was to end Beirut's primacy as the Arab banking centre of the 1960s and early 1970s. And, at the time, some 12 banks arrived, including Citibank and Bank of America.

Within a few years, however.

limb from all that and without an equally dynamic regional Maghrebi economy to compete, began to lose some of the early arrivals - Bank of America closed down, Banco de Brazil, National Bank of Abu Dhabi and others followed.

Tunisia's remaining offshore banks settled thereafter into their present role as the leading financial intermediaries for foreign investors. For a largely inward-looking local banking system, spawned from the dirigiste economy of the 1960s and screened from the outside world hy the central bank, the offshore banks offered a window on the world.

They, alone, were legally entitled to offer exporters estahlished as "non-resident" companies, but manufacturing out of Tunisia, hard currency transactions without prior approval from the central bank. They also tended to lead the way on trade finance. But the size and scope of the offshore banks came to be tied directly to the fortunes of Tunisia's economy.

Several banks carved out particular nicbes. Very hroadly: BEST bank, a joint venture between the central bank and the Albaraka group. encouraged Saudi investment in Tunisia; North African International Bank focused on

Citibank took a lead in treasury operations, in particular with Maghreh currencies; and Tunis International Bank developed private banking, trade and investment finance.

Both BEST and Citibank also evolved onsbore operations. These are permissible under laws permitting offshore banks to deal in local currencies to the value of equity investments they heve brought into the country. BEST bank, for instance, reckons on having brought in \$200m of such investment and has created an onsbore dinar operation accordingly, within a further ceiling which permits offshore banks to take dinar deposits

But there is soon to be an erosion of the offshore banks' most distinguishing feature their privileged position as for-

domestic deposits.

only up to 1 per cent of total

Tunisian-Libyan trade finance; eign currency intermediaries. Tha government's decision to introduce current account convertibility of the dinar earlier this year now means that foreign currency transactions for import and export deals can be transacted without prior central bank approval, merely sub-

> Their most distinguishing feature - a privileged position as foreign currency intermediaries - is soon to be eroded as the dinar becomes convertible

segnent notification and

As the government moves towards full convertibility, pencilled in for 1996, the local banks will be increasingly exposed to direct international dealings and differences between the local and offshore hanks will diminish accordingly. This, at least, is the hope and, indeed, the cue for the

harbour the greater part of Tunisia's best bankers. As the country begins to develop its embryonic financial markets and accelerate its drive to attract inward investment, the offshore banks are positioning themselves to expand their products, particularly in investment and merchant banking.

the catalyst for the regenera-tion and internationalisation of

Tunisia's still underdeveloped

hanking sector. By virtue of

their previously exclusive

international experience and a

small salary premium over

local banks, the offshore banks

The process is about to receive a small fillip in the

shape of Arab Banking Corporation's arrival as a fullyfledged offshore bank. The Bahrain-based bank's representative office of some vears standing has won approval for offshore status and the bank is aiming eventually to add onshore facilities. ABC, which already has an office in Tripoli and is seeking another in Casablanca, is the biggest international banking arrival in Tunis since the seventies.

It is unlikely to herald a new ers for Tunisia as an Arab banking capital to rival Bahrain. Local bankers point out, for instance, that Tunisian banks are almost without direct representation in the country's main trading markets and have some way to go before they can aspire to that ABC's arrival, however, and, more particularly, the government's clear determination to kick-start the financial sector nevertbeless suggest that, should the Maghreb countries succeed in putting their professed ambitions of economic union into more effective practice, Tunis will emerge as North Africa's natural banking

Mark Nicholson examines how the country is selling itself to the world

## Inward investment drive is being stepped up

controls have been dropped or is substantially the higgest relaxed. Investment licensing bas been ahandoned. A ministry of co-operation and foreign investment has been created to centralise the government's sales pitch. And early this year the government took the first steps towards making the dinar convertible,

The government has taken the first steps towards making the dinar convertible

introducing current account convertibility for imports and

The government's next, lmminent, step will be to produce a unified investment code to replace separate sectoral codes covering manufacturing, services, tourism and agriculture - "at the moment we're confronted by a library of texts," says one Tunis banker. The code

covering bydrocarbons, which draw for foreigo investors, will remain in place.

"We are producing a consist-

ent and coherent institutional environment," says Mr Mustapha Nahli, planning and regional development minister, "We want to end changes in the environment. We're saying, with this code -- that's it. The new code, which Mr Nabli says should be finished and in place by July, also aims to cover areas. like transport and education, not previously covered by any sectoral code.

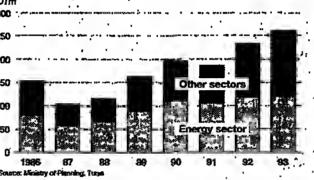
It should also encourage regional development and, particularly, add Incentives for investment bringing technology transfer. However, the new code is unlikely in itself to offer a particular incentive in a country which foreign investors say has always offered a clear, effi-

cient and systematic institu-

tional framework for invest-

points will remain its political

**Inward investment** 



stability, its proximity and good access to the EC market, and its cheap labour costs. This combination has been

rewarded by a steady flow of Italian, French, German and Belgian investment, notably in tourism, textiles, leather goods, and electrical and mechanical products. The resulting growth in tourism ment. Tunisia's main selling and textiles is particularly marked. There are, for

instance, now more than 160 separate German manufacturing investments la Tunisia. covering companies employing 22,000 people. Exports of textiles and leather products to Europe alone, to illustrate further, made up 41 per cent of

Tunisia's total exports in 1992. The textile sector could receive a further, considerable boost should the board of Sara

Lee, the US clothing and foods findings that Tunisla was a group, decide this month to proceed with a possible \$60m investment in a spinning and weaving plant in Tunisia. The chief rival for the proposed investment appears to be Morocco, which has been lob-

bying bard to bring the US group to its corner of North Indeed, all such major commitments from multinationals are likely to be increasingly

hard won, Moreover, Tunisia's retention of keen competitive advantages against its immediate neighbours, the countries of eastern Europe and the former Soviet Union and the Asian "tigers", is likely to pose the greatest challenge to the government over the next few years, committed, as it is, to increasing, at the same time, a politically vital set of

social policies, On sheer wage costs, Tunisia remains competitive. A recent report by the Tunisian-French Chamber of Commerce quoted

substantially cheaper place to make some garments than Poland, Portugal, Turkey and Hong Kong. Nevertheless, unlike many

of its rivals, Tunisia maintains a minimum guaranteed industrial wage which is subject to s in line with prospective inflation. "Tunisia is still

Wages are competitive but, unlike those of many rivals, will rise with Inflation

competitive," says one Ger-man industrialist. "But they have to pay attention." Some foreign investment

agencles are watching closely. for instance, the development of the new investment code. Among the measures under discussion is the granting of a 10-year tax holiday for new manufacturing enterprises but this would, in fact, be

something of a dislucentive given that most present invest-ments are granted an indefi-

"We can understand that the government wants to make the code as economically beneficial as possible for the country," says a German investor "But it has to remain as profit-

able as possible for us." The Tunisian government is hoping, bowever, to move beyond the simple appeal of low wages and emphasise instead the relatively high Workers are not just productive here, they have shown they can also produce high

quality," says one diplomat. While the country is scarcely going to turn down further investment in, for instance, textiles, it would rather see companies look to Tunisla to develop higher technology products, service industries or computing and soft-

"Tunisia cannot count on remaining a low-wage economy," says Mr Nabli, "The level of living bere is continually rising and our competitive strengths changing. We need above all for our economy to absorb more sopbisticated technology.



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HATEVER the map suggests, there is little douht to which economically. Last year Tunisis bought 71 per cent of its imports from the EC, to which it sold 77 per cent of its exports. The respective figures for trade with its Maghreb neighbours were 3.6 and 7.9 per cent. And much of that was

with Libya.

For these commercial reasons alone, Tunisia's forthcoming negotiations with the European Community on a fresh co-operation accord are likely to overshadow whatever diligent efforts the government may make - and recently has certainly been making - to create something meaningful out of the four-year-old Arab Maghreh Union (which embraces Mauritania, Morocco, Algeria, Tunisia and Lihya).

Bnt Europe ls Tunisia's touchstone near-neighbour for cultural reasons, too. For all its religious distinction, Tunisia is a deeply Mediterranean country and the aspirations of its swelling and sophisticated mid-dle classes are little different from those of its neighbours on northern shores. "It is very important for Tunisia, and particularly for the government here, to feel itself a south European rather than simply a north African country," says one diplomat

For these reasons, therefore, Tunisia and the EC look set to tie their knot more tightly by negotiating onwards from the financiai protocols which have guided relations between the two sinca 1977 to a fuller accord. "We want to enlarge our relations to a complete and total collaboration," says one foreign ministry official. Because we are condemned to live together, we want to make sure we do so as happily as

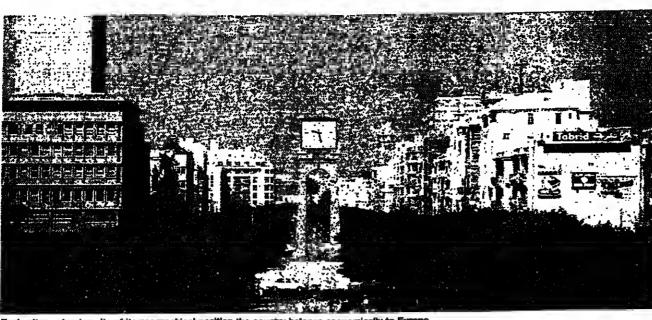
By the end of the fourth and

It is very important for Tunisia, and particularly for the government, to feel itself a south

European rather than a north African country latest Tunisia-EC protocol in

1996, the community will have provided direct aid in the form of grants and credits worth around Ecu743m (\$899m). A clutch of additional agree ments have also been reached covering co-operation in science and technology, the environment, telecommunications, energy and many other areas.

But most important for Tunisia will be the negotiations on trade. Eventually, both sides want to see the creation of e free trade zone between the EC and Tunisia, but in Tunisian eyes this is a long way off and much needs urgently to be negotiated well before then. Under the most optimistic



Mark Nicholson discusses trade relations with Europe

## Mapping out an EC future

the country will be in a sufficlently sturdy economic state to offer fully free trade with the EC only by about 2010. Under the format for the negotiations, four rounds of "exploratory conversations"

have now been concluded to establish the basic technical issues covering an eventual accord. Pending a mandate from the council of ministers. negotiations are likely to begin at the start of next year on a text which, with luck, could be

ratified by the Twelve and in place by 1996. The EC is following a paral-lel course already in talks with Morocco and hopes to add Algeria to the process as soon as its political stability will allow. A bloc-to-bloc approach from the EC to the Arab Maghreh Union has heen a non-starter for several reasons, not least among which is Libya's continued diplomatic isolation over the Lockerbie

Bur although both EC offi-

cials and their Tunisian counterparts consider overall relations to be excellent, mntual understanding high and the will to reach an accord clear, there are some very tough talks ahead. To begin with, say Tunis officials, the EC will have to stump up considerably more ald if it is to help put Tunisia on a steady enough economic footing to consider opening its economy further to EC goods. "There's a heavy

The thorniest issue between the EC and Tunisia will be trade, particularly in agricultural products, and most particularly, olive oil

price to pay and an effort to make," says one official. "We'll make the effort, but the community must help us to pay." The thorniest issue, however, will be trade, particularly in agricultural products, and most particularly on the issue of olive oil – Tunisia's most important agricultural export. At present, Tunisia is permitted a quota of 46,000 tonnes of olive oil under an agreement which expires at the end of this year. A fresh transitional agreement covering 1994-1995 is under discussion now, and Tunisia is insisting on a quota of at least 80,000 tonnes.

By Tunisian standards thet

is a modest request. In a bad

talks prove, though, Tunisian officials are quietly confident of the eventual outcome. The "pragmatic march of Europe", in the view of one senior official will soon extend it across the present Efta countries and many in eastern Europe. "Eventually," he says, "membership of Europe will be a question of purely economic rather than geographical criteria. At that point we will meyitably he part of a broader

half Tunisia's olive oil crop. In good years, like 1991-92, the country produces 270,000 tonnes. Furthermore, agriculture is one of Tunisia's most important employers accounting for perhaps 46 percent of the workforce and environmentally vital crops. Olive trees are among the country's best defences against desertification. But olive oil is also a key crop for almost all southern BC states, particularly Italy, Portugal, Spain and Greece. As a result, the present quota looks likely to stay more or less in

> the wider accord. The Timisians are saying to Europe, open up your olive oil market, and the Europeans are saying open up all the rest of your markets first. Neither can hap. pen immediately," says one diplomat. However tough these interim

place, pending agreement on

year the present EC quota

would account for less than

Europe."

■UNISIA is, hy Middle Eastern standards, a very small producer of oil and gas - 5.19m tonnes of oil last year and 231,000 tonnes of oilequivalent in gas.

However, the royalties, in the form of gas, Tunisia receives from the trans-Mediterranean pipeline thet carries Algerian gas to Italy, gives it access to three times as much gas as it produces.

The share of natural gas in meeting the country's growing requirements is steadily

Two factors will ensure that the share of gas in meeting Tunisian energy requirements continues to grow, First is the doubling, over the next five years, of the volume of Algerian gas Italy has contracted to buy, which spells a doubling of royalties to Tunisia; second is the development, hy British Gas, of the Tunisian offshore Miskar gas field, the production of which will meet domesFrancis Ghiles examines the future of the oil and gas sector

## Bright hopes for energy

The last four years have also witnessed a surge of oil exploration and development as more international oil companies are attracted hy the favourable environment Tunisia offers, including tax incentives, stable government and pleasant living conditions.

Conoco's senior director of exploration, Mr Alfred J Boulos, said recently: "Tunisians are intelligent and worldly wise, listen to reason and logic and take positive steps whenever justifiable." Such words well describe senior oil gas officials, be it in the state companies or in the ministry of economic affairs.

In the middle 1980s, such people were faced with having to meet rising domestic energy

consumption when production from the country's two leading oilfields, El Borma and Ashtart, was declining. Consumption looked as if it might overtake production. New legislation was introduced in

1987, in particular, faster costrecovery in royalties starting as low as 2 per cent were aimed at promoting the development of low- and mediumsized fields that bad been discovered but oot exploited in the decade or so before. After five years of decline, production picked up in 1989

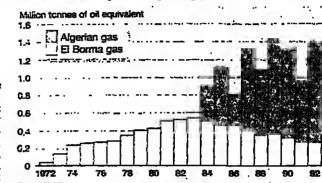
and has grown modestly but steadily ever since. The past two years have been marked by three important developments. The annual number of new wells drilled on and offshore has increased threefold to 22, the figure of investment by foreign oil companies douhled over the same period from \$70m to \$140m. The aim is to keep drilling activity around 20 annually to the end of the decade. Despite the rising consumption of energy, the increased exploration activity has just about maintained a reserve to production, at current levels ratio, of about 12

The second important develonment was the agreement in December 1991 between British Gas and Enterprise Tunislenne d'Activites Petrolieres (ETAP). whereby the UK company decided it would spend \$580m developing the offshore Miskar gas field. This field was discov-

ered 15 years ago hy the ited by British Gas when it hought the US company Teneco in 1988. Among the reasons that made a gas field interesting in 1991 - when ti was unattractive to develop in the mid 1970s - were the fast development of Tunisia's domestic gas requirements. Gas today accounts for between 17 and 33 per cent of the country's energy requirements, depending on how com-petitive its price is with heavy fuel oil to fire power stations. The construction of combined cycle power stations, which produce electricity from gas, is

increasing the need for gas. The Tunisians did much to lure British Gas. As production

#### Gas consumption by origin



from Miskar will be too modest for export purposes, British Gas has been guaranteed the sale of all the gas it produces to the Tunisian domestic market. The gas will be paid for in hard currency and British Gas will be allowed to transfer profits out of the country. Further advantages include royalties which, since the law was changed in 1985-7, are now cal-

culated on a flexible basis. They can be as low as 2 per cent or as high as 15 per cent depending on the profitability of the operation. Tunisian flexibility has proved worthy of the country's Carthaginian

Meanwhile, the 10th anniversary of the trans-Mediterranean gas pipeline was celebrated last month. The throughput capacity of the pipeline is being doubled to 24bn cuhic metres and the work will be completed this The passage of this pipeline has become a central feature of

the energy policy. Tunisia's reputation, and for that matter Algeria's, has been enhanced by the complete absence of disruption to the gas flow since operations started in .1983. There have been no disputes on tariffs or prices. No political dispute between Tunisia and Algeria has marred the operation. The seller has succeeded on more than one occasion in altering the price formula, but the flow of gas has not been interrupted.

The doubling of the Trans-Mediterranean is a vindication of the security of supply. It has proved a key factor in helping to launch the western trans Mediterranean line, which will carry Algerian gas to Spain across Morocco and under the Straits of Gibraltar.



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The useful trip, the pleasant journey

A QUIET revolution is afoot in the Tunisian countryside. Production of a wide range of foodstuffs - cereals, olive oil, fruit, vegetables, meat and dairy products - is increasing. The variety and quality of produce on offer in local markets and for export is growing.

Four consecutive years of good rainfall have played their part. But so have government policies, which in recent years have lent greater support to farming than at any time in

the past 30 years. Several factors lie hehind what amounts to a rehirth Long-standing efforts to improve farming techniques

Section of the sectio

have borne fruit.

Considerable efforts have been made to mobilise water

Life on the land is less harsh than bafore, thanks to improved roads, electricity and better access to education and health in remote areas. ■ The state is divesting itself

of some of the land it has held since French farms were "nationalised" in 1964. These

Agriculture is reborn

500,000 hectares of state land tial in a country whose are among the richest in Tuniresources are scarce and which suffars drought at regular Wheatfields in Tunisia no longer sprout poppies, which

The state has given strong backing to efforts to build dams. In recent years, however, small earthenware dams have been promoted, which are cheaper and easier to build and play an important role in arresting soil erosion. Erosion remains a serious problem that is being addressed in a number of ways, notably the planting of fruit trees in northern and cantral Tunisia and the renawal of the vast plive groves - the olive tree remains the best instrument to stop the advance of the desert in cen-

Life in the countryside is also improving for those who

tral Tunisia.

dence life in the towns, with access to good facilities in edu-cation and health and subsidised food, was more attractive than tilling the land. As Tunisia liharalises its economy. allowing the price of foodstuffs to rise and gives farmers a better income, that balance is

Francis Ghiles reports on a quiet revolution under way in the country

slowly shifting. The leasing over the past three or four years of 100,000 hectares of some of the best land in the country, for up to 25 years to private investors, is introducing more capital intensive and modern crops to the land. These leases are renewable and joint ventures with foreign companies are being actively promoted. During the socialist experiment in the 1960s, these state domsins were badly mismanaged. Then,

surplus oil because its annual

export quota to the EC is only

46,000 tonnes. Nearly 90 per cent of Tunisian exports go to

EC countries. Italy alone

absorbs more than two-thirds

of Tunisian oil exports to the

EC. Tunisia pays a tariff of

Ecu5-10 per 100 kilogrammes

of olive oil, compared to

ECU55 for Morocean and Turk-

ish exports, for which there is

and for the following ten years, the prices producers could charge were frozen, basic food-stuffs increasingly subsidised. The domains being leased can be large, such as a 1,000 hectare domain at M'Raissa, where Shell, in partnarship with private Tunisians, is growing seedless grapes for export. Other domains have been split into smaller units with leases often granted to agricultural engineers who are growing crops new for Tunisia - winter strawherriea and malons, asparagus and mushrooms. Some are raising rabblts, an unheard of activity here until recently, which find ready markets in the many hotels along the coast.

The current improvement can be traced back to the reforms aimed at liheralising



try's economy introduced in 1986. Prices paid to producers have, since then, improved 40 per cent on average. The cost of inputs has also shot up; fertilisers by 60 per cent, seeds a more modest 25 per cent and water 9 per cent annually. As subsidies on basic foodstuffs are reined in, the result is that resources are being reallocated towards a key sector of the economy in more rational fashion. The results are visible.

In 1991-1992 Tunisia enjoyed positive food balance for the first time in two decades. Barley and hard wheat are in sur-

plus, though a deficit remains in soft wheat. The amount of rainfall still dictates the size of the cereal crop, which can vary from 300,000 tonnes to 2.4 million tonnes. In a good year, foodstuffs account for 10 per cent of all imports, a figure that rises sharply in years of drought.

Some sectors have not followed the progress of others. Vineyards have suffered until very recently from under investment. A few years ago Tunisia nearly ran short of wine during the summer sea-

aon - a Moslem country

importing wine would have

been a real embarrassment for the authorities. Had joint ventures with foreigners heen encouraged earlier. Tunisia today could be exporting high quality wines.
Olive oil presents a unique

difficulty, as the European Community imposes quntas. Italy is not shy when it comes to mixing Tunisian olive oil with its own and selling it as Italian oil. The production of olive oil is the main source of income for 100,000 families and helps provide income for 1 million people overall. It also helps the environment - olive trees are the best way of preventing erosion.

Two constraints, however, hamper the further develop ment of farming. First is the ever-growing fragmentation of ownership, with 80 per cent of all farms boasting 20 hectares or less. The result is often poorly capitalised farms and a major brake on progress. The other constraint is age - the avarage Tunisian farmer is over 50. This weakness can to some degree be remedied if farming in the newly leased state domains is made more attractive.

As Tunisia is ever more self-sufficient in many products and seeks to export more food it is confronted with new difficulties. EC quotas are one but also the lack of regular high quality control, the backwardness of packaging and marketing methods. The next battle will be fought on these

The 55m olive trees in Tunisia occupy one third of all arable land, writes Francis Ghiles

## Oiling the wheels of the workers

THE olive tree has been a source of wealth, a symbol of peace and prosperity since Mediterranean. In Tunisia, olives were grown well before Carthage was founded hy Queen Dido in 814BC and the very name Zaytuna Mosque, which dominates the old medina of Tunis and houses one of the oldest Islamic uni-"olive tree". The production and trading of olive oil remains a quintessentially Mediterranean phenomenon.

Some olive oil is produced in Argentina and California but Italy, Spain, France, Greece and Tunisia - the fifth largest producer - account for the hulk of the 1.7m tonnes produced in the world every year. Of this figure, 75 per cent comes from southern Europe, the halance from Tunisia, with 7-10 per cent, erated by the olive oil industry

Jordan, Morocco and Turkey. Three sets of figures underline the central importance of this sector to the Tunisian economy. More than one third of all farms in the country derive more than half their incoma from the production and sale of oil; nearly 1m Tunisians draw part of their income from the same source. Between 1987 and 1992, olive oil accounted for 8 per cent of the value of all Tunisian

made them attractive to visi-

tors in the apring but

suggested low yields and poor

use of fertilisers. The growing

use of the latter has proved a

The olive tree remains

the best instrument

to stop the advance

of the desert

key factor in improving yields and overall quality. Farmers

are also mastering irrigation

techniques, at a time when the

amount of land under irriga-

tion is growing fast. Improving

their mastery of water is essen-

exports and 42 per cent of the value of exports of foodstuffs. The 55m olive trees the country boasts occupy one third of all arable land, notably in the arid central provinces around the city of Sfax where the poor soil could not accommodate other crops; the trees also provide one of the best means of fighting desertification. A further advantage is that the number of jobs genthe cities. The production of olive oil

does, however, fluctuate strongly from 50,000 tonnes in years of drought to 270,000 tonnes in exceptional years snch as 1992. Domestic consumption accounts for about

All Mediterranean countries recorded a bumper crop, something which occurs once in a generation

40,000 tonnes annually. The balance of requirements, about 110,000 tonnes, is made up by importing much cheaper sunflower and colza oil. Olive oil is four times as expensive as the mixture of olive and sunflower oil most Tunisians use for their daily requirements. Tunisia cannot export all its

The gint of olive oil which followed the 1991-1992 crop has made life exceptionally difficult for the Tunisian Office National de l'Hnile, which has a monopoly on collecting olive oil in the country and manages virtually all exports. World production last year reached a record 2.2m tonnes, as all Mediterranean countries recorded a humper crop, something which occurs

once in a generation. Tunisla's record crop was not simply the result of excellent weather conditions but because of the improved farming methods and replanting of olive trees enconraged in recent years. Producers have also been encouraged by the National de l'Huile which have increased by half since

The office has been ohliged to stock olive nil and has been forced to borrow from Tunisian banks at market rates. Since 1990, the office no longer enjoys access to subsidised loans, part of the overall policy of rationalising economic management. Private companies have begun exporting olive oil but the main hurden

of selling abroad still rests very much with the office. The reason why Tunisia cannot gain a bigger quota with the EC concerns the subsidies EC members are allowed to give their own producers of olive oil. Snhsidles are extended to primary producers

and to the olive oil processing industry.

Subsidies for the export of olive oil outside the EC are equivalent to 50 per ceut of the value of exports and the EC has even started promoting the consumption of olive oil in snch far away markets as Japan and Australia. Italy is also widely believed to provide bogus figures for its own pro-duction of alive oil. It imports Tunislan oil which it re-ex-ports under Italian labels, notably to the US.

In its annual report for 1991, the EC Court of Auditors criticises the manner in which subsidies to the olive oil industry are distributed within the EC and suggests it is "unreliable". It also criticises the manner in which the International Olive Oil Council, which was set up in 1986, is managed. The EC provides 74 per cent of the budget of the Olive Oil Council. The EC Commission, bowever, has rejected such criti-

The difficulty the Tunisians have in exporting more of what, for them, is a vital crop, illustrates the conflict of interest hetween Maghreh and sonthern European countries which centres on foodstuffs roduced on both shores of th Mediterranean. But Tunisian nificials argue that if the real figures of EC production and subsidies were available, their country would be able to gain an increase in its quota without damaging the interests of EC producers.

The hroader question is whether it is morally justifiable for the EC to close its eyes to certain practices among its own members and at the same time limit imports from countries in North Africa who desperately require funds for projects aimed at stopping the advance of the desert and halting the exodus from the

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Francis Ghiles on the challenges of developing the southern provinces

## New source of wealth from the sands of the desert

DEVELOPING THE southern provinces of Tunisia - running from the Algerian frontier around the Shott El Jerid, the salty flatlands which, during the hot summer months turn into a hard salty crust stretching for miles, to the port of Gahes, opposite the tourist unique challenge.

The western provinces of Tozeur, Gaísa and Kehili traditionally belong to the bled siba, the land of dissidence whose inhabitants led a nomadic life until the 1960s and seldom paid taxes to the rulers in Tunis.

Though often illiterate, the inhahitants of the Jerid and Nefzaoua region south of the Shott had a rich tradition of urhan life and boasted one great source of wealth, the deglet nour or date of light. considered by connoisseurs the finest in the world.

source of income hut, even more important, is the development of fruit and vegetables such as meions and tomatoes. which are grown in greenhouses using the many local hot water springs and whose produce can be shipped to Europe between mid-November and mid-May when no EC quotas or tariffs impede their

If not carefully managed, however, the fast development of such crops and the spread of new hotels could seriously threaten the environment and the balance of human resources of a fragile desert

The new face of Tunisian agriculture can be seen near Gahes, where a Tunisian agricultural engineer. Mr Nejlb Zarrouk, has established a joint venture with a group of

melons near Chinon in the Loire valley and market them through a company called Derhy, Half the DT1.7m capital, of which DT500,000 is so far paid up, is provided by the so-called Beregovoy line of subsidised credit and administered in Tunisia by France's Caisse

An ambitious deep water drilling programme has revealed undreamed of riches in water

Centrale de Cooperation, the rest is spread among Tunisian banks, most notably the Tunisian Saudi Development Bank, A long lease for the neces-

sary three hectares has been secured from the Tunisian state and in 1992, the first year of activity, 220 tonnes of tomaquality melons were exported to France. Figures will more than double for the second season ending in May. The Chenchou success story

is a pointer to the future as the Tunisian state is leasing an ever growing surface of its 500,000-hectare domain, foreigners are allowed to invest in land and bright young Tunisian engineers are keen to start up their own husiness. Thanks to an ambitious deep

water drilling programme financed by the Gulf states and Saudi aid, undreamed of riches in water have been discovered As the standard of living increases and more people establish irrigated crops, the authorities face two problems. The first is how to control irrigation schemes that are increasingly set up without permission, the second is how to drain water after it has been



In traditional oases the date palms and the fruit and vegetahle which grow below were set up on slopes to allow the water to drain away. Faulty drainage can have a lethal effect as it allows salt to accumulate, a

sure way to sterilise the land and kill date palms. Ensuring proper drainage is essential, particularly at the 1,152-hectare oasis of Rjim Maatong, a new oasis being created west of Kebili and financed by EC aid worth DT15m, Italian aid worth DT7m and DT10m worth of

Tunisian funds. The high cost of the Rjim Maatoug project is justified in terms of the broader security of an area close to the Algerian frontier. When completed, the project will help settle local nomadic tribesmen. The project is being managed by the army, together with civilian authorities, a combination that in the harsh

and difficult to reach surroundings appears to be working

The fast development of tourism poses a different challenge. Quite apart from the danger of spoiling a unique landscape with hotels whose style jars surrounding build-

The skill of scrambling up date palms is fast disappearing among young boys

ings, hotels attract labour away from farming and that means essentially looking after date palms. This is a very labour intensive and skilled job. The palms must be indi-vidually pollinated by hand, the dates hand-picked. The sight of young boys scrambling up date palms may be picturesque. Such skills, however,



are becoming less available, but essential for future crops. A further challenge is to

improve the marketing of dates abroad. Despite the high quality of the deglet nour, half the dates the Jerid produces are marketed through a few traders in Marseilles, depriving Tunisia of direct access to many markets. Packaging is way behind modern international standards. In other words, Tunisia lacks access to a good international distribution network. Dates are the kind of farm produce from which the country should be earning good foreign income. They are labour intensive and

equivalents. Many older oases have been virtually abandoned, their intricate foggara water channels ill kept, if not abandoned. Inhabitants of such remote

do not compete with any EC

work in botels

In the mountain casis of Tamerza due north of Tozeur the only local baker refuses to deliver bread to the Tamerza Palace, a hotel which opened last year. On Sunday he remains closed forcing the hotel to send for its bread 20 kilometres away in Redeyel. People from Tamerza show no interest in jobs provided by the hotel, but small settlements further afield are less disdainful of such jobs.

Developing this remote area of Tunisia presents a unique set of challenges. Three constraints, which are intimately related, touch on water resources, human skills and the environment. They must be taken into account if serious damage is to be avoided. Mistakes here carry a heavier price than in the more temperate northern or maritime prov-

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**FT SURVEYS** 



Marine link: the ichicheul lake near Bizerta is connected to the sea by a wide canal making it a prime alta for industry

A fresh generation is coming of age in Bizerta, says Francis Ghiles

## New age dawns in old town

BIVE years after Tunisia gained independence from France, in 1956, the town of Bizerta was the scene of a bloody battle which pitted General de Gaulle against President Habib Bourguiba. Mr Bourguiba was keen to regain control of the important naval base France had built after it occupied the country in 1881, and which it was unwilling to hand back.

For 75 years, this former privateering port ranked, along with Mers El Kebir in western Algeria and Toulon, as one of France's key naval bases. The town retains most of its colonial architecture, a port dominated by old fortifications, and its old "medina" (Arab quarter). Only four hotels have been built on the nearby corniche – tourism has not ruined

the town.

Bizerta was cosmopolitan thanks to the mix of tens of thousands of French army and navy men and officers, Sicilian fishermen, Maltese handymen, a smattering of Greeks and

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White Russian exiles fleeing the 1917 revolution. Unlike Tunisians elsewhere, the people of Bizerta did not have to fight to make a living. Few of them became doctors or lawyers. They did not much care for Mr Bourgulba who did not

bother to hide his contempt.

Times are changing and no man could symbolise the new mood better than Mr Mohamed Ben Rejjeb, who was appointed governor two years ago. Mr Ben Rejjeb is a hands-on governor, a tireless fighter who seems to be present on every front coaxing people, pushing others, getting Bizerta's needs noticed in the capital which, psychologically, still feels more distant than the 60 kilometres separating the towns.

Three factors explain this awakening of Bizerta and its rich farming hinterland. First, a new generation of "Bizertins" is coming of age, well-educated people who want to invest in industry and farming. They have no nostalgia for an age they never knew. They know

that the port and other industrial facilities, many still unused, which dot the town and the shores of the large inland lake behind Bizerta connected to the sea by a wide canal - offer prime industry sites. A free trade zone, an idea which appears to make sense. both because Bizerta is strategically placed between the eastern and western Mediterranean and because Tunisia is liberalising its economy and actively promoting foreign investment, is expected shortly. This zone will be managed by a private joint venture associating Tunisian and for-

eign capital. A second trade

zone is being set up in the southern port of Zarzis, close

to the Libyan frontier.

The industrial sector is strong and varied. There is the country's primary oil refinery, steelworks at nearby El Fouled, a string of textile factories – many started in the mid-1970s by German and French companies which import the fabric that is then re-exported as jeans, shirts and hosiery. Expensive "Van Lack" German shirts are made here.

Bizertex manager, Mr Ferinand Terburg, who has lived in Bizerta for 15 years, is looking forward to the company soon opening its third factory in the town. He pralses his workforce's standard of education and professional skill, saying that 18 per cent of the 500 women working in the factory are involved in quality checking. He feels the political stability Tunisia enjoys, the three-year agreements negotiated between the trade unions and employers' federation, provide a steady environment where he can work. He adds that government officials are more willing to consider changes to existing rules and regulations than they were a decade ago.

More ambitious plans are

More ambitious plans are afoot in the farming town of Mateur, just inland from Bizerta, where Tunisia's leading producer of electrical cables, the Chakira Group, has started

production of electrical harnesses for cars in a plant where, until 1986 when it went hankrupt, Renault cars were assembled. The Chakira group already produces harnesses in another factory in Tunisia, part of a joint venture with General Motors.

Other companies in the group are involved in manufacturing printed circuits and high-voltage, medium-voltage and low-voltage power cables. Other activities include manufacturing kitchen equipment such as high-pressure cookers and "Tefal" saucepans. Such a company may be small by international standards but it is symbolic of the internationalisation of the economy. Indeed, it is investing abroad and will this summer start producing electrical harvesses in Portugal and in Egypt.

The region of Bizerta is also attracting investment in farming. Natural advantages include more regular rainfall than elsewhere in the country and good land. Ninety per cent of all arable land in the region is in the hands of private farmers, which means the mismanagement of the vast public domains created in the 1970s out of land expropriated from former French colons has been avoided. What state land there is is being conceded on long leases to private companies.

Typical of new farming businesses is the joint venture established by a Tunisian company with one of Italy's largest plant and flower companies, Resteya Italia, whose bome base is Treviso, north of Venice. Geranium mother plants are imported to Bizerta in the antumn and cuttings are taken a few months later and rebedded. When they have grown roots, they are flown to Treviso. Similar ettempts are being made with artichoke plants which, if successful, could prove lucrative. Such ventures can make use of the region's temperate winter climate and cheaper labour costs than in Europe.

Memories of the Jewish past are being unveiled, says Francis Ghiles

## Covers come off real history

EIGHTEEN months after succeeding Mr Habib Bourguiba as Tunisia's second pres ident, Mr Zine el Abidine Ben Ali paid a state visit to France. All the usual trappings of a state visit were in evidence, including a few hours spent at the Saint Cyr Coetquidan military academy which the young officer had ettended 30 years earlier. More unusual was the restaurant at which Mr Ben Ali chose to have dinner on his first night in Paris - Chez George de Tunis, Rue Monmartre, is e typically Tunisian Jewish restaurant, of which there are many in this arron-dissement of Paris.

Last September, the chief rabbi of France, Mr Joseph Sitruk, was invited back to the country where he was horn. The rabbi was shown round the presidential palace by the head of state in person and the news was featured on prime time television.

This gesture marked a break in the arabisme of the past two decades. It brought back memories of Mr Bourguiba's bold suggestion, made in Amman in 1965, that only when the Israelis and the Palestinians sat down together would there be any hope for peace.

To mark the fifth anniversary of his eccession to power last November, the president attended a ceremony where Tunisian history was evoked with a greater measure of since 1956 had Tunisian people been reminded that e majority of their countrymen were Christians until just over 1,000 years ago. The vast majority of this Sunni Moslem country had no Idea thet Shi'ite Islam had flourished under the Fatimid dynasty which ruled in the ninth and 10th centuries. The menorah candlestick was paraded, a reminder of the more than 2,000 years of Jew-

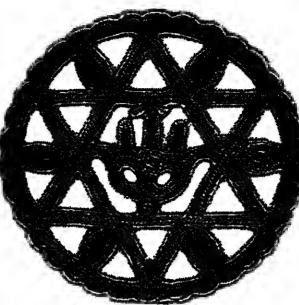
ish presence in the country. Tunisia's personality is complex, its richness lies in its diversity. Legend has it that the Ghriba synagogue of the southern island of Jerba was built around a stone prised from the eastern wall of King Solomon's temple in Jerusalem brought by a group of Jews after its destruction by Nebuchadnezzar in 586BC. The synagogue, according to another account, takes its name from a Jewish woman who reached Jerba, carrying a stone in her hand. She became known on the island as al Ghriba, the stranger, who, after living an

trace.

The annual pilgrimage beld in memory of Rabhi Meir Ba'al Haness and Rabbi Shimon Bar Yochal takes place annually a few weeks after Passover. This year it attracted 2,000 Jews, the largest number in decades.

exemplary life, died, leaving no

Seven hundred of an estimated 2,000 Jews in Tunisia live on the island, happily coexisting with the local inhabitants who belong to the Ibaditerite of Islam which is the dominant rite in Oman and in the southern Algerian town of



Jewish symbol on ancient Tunisian aliver jewellery

Ghardaia. Ibadites in north Africa are traditionally tolerant, learned and excellent traders. Indeed, hospitality as they practise it is described by the great Arab poet Omar Khayyam as deeply etched on to Jerba – "the clay whispered to the potter who pounded it; remember I was once as you are, do not handle me

roughly."
History recalls the presence of Jews in Tunisia, notably in Carthage nearly 2,000 years ago. A large necropolis was discovered in the 1970s, probably the burial ground of those Jews descended from others who had taken refuge in north Africa after the second destruction of the temple by the Roman emperor Titus in 70AD. Unlike the events in many Arah countries after the cre-

Arab countries after the creation of Israel the Tunisian Jews, who at the time of independence numbered around 50,000 and had acquired French nationality, did not leave the country under duress. Moving to France was natural as that country offered greater oppor-

One Tunislan Jew who did stay and is now a successful businessman is Mr Roger Bismutb, who still lives in the suburb of La Goulette, just outside Tunis, an area which in colonial days was synonymous

with Jewish and Sicilian ways

Following the French Great Rabbi's visit, the Tunisian authorities lifted the freeze on funds belonging to Tunisian Jews. That money can now be spent in Tunisia

of life.

spent in Tunisia.

Official recognition of the diversity of Tunisian history is taking other forms. The role of the former rulers of Tunisia, the "beys", is now officially recognised. Since the last bey, Lamine, was deposed in 1957, the very memory of their existence had been erased. One of their palaces near Tunis, et Ksar Said, has recently been

All these gestures come et a time when Tunisian leaders are liberalising the management of the country's economy. Foreign investment is heing encouraged and some Tunisian entrepreneurs are

now investing abroad. No one expects former Tunisian Jews to come hack and settle in Tunisia but they could prove useful relays in marketing Tunisian goods abroad or joining with Tunisians in joint wentures in the land where they lived for so many centuries. International marketing is one of the skills which still eludes many Tunisian husingestern

ressmen.

Former Tunisian Jews are well established, notably in Paris. Most of them have fond memories of Tunisia – for centuries they shared many cultural values not least music and many business interests. As the Tunisian film, The Man of Asbes, so eloquently showed, the cultural symbiosis between the two communities ran deep. A number of Tunisian families played an important role in the struggle for

During the Vichy and the Italian-German occupation, 1940 to 1943, many Tunisian Jews found refuge and help with their Moslem rather than their French brethren. Mr Ben Ali shares such memories of close relations with Jews with many Tunisians. His childhood days were spent in Hamman Sonsse during the Second World War.

Closer links with the Jewish

community, if they develop, could have other beneficial consequences. They could encourage moves to liberalise the economy further. They could force greater transparency in economic operations. Such links could encourage foreign investment and trade. greater freedom of expression. Mr Ben Ali's welcoming hand in no way belies his sup-port for the Palestinian Liberal Organisation. The president has said he would be happy to host a meeting between the PLO leader Mr Yasir Arafat and the Israeli prime minister. The president's policy might simply help Tunisia recover its memory and thus bring it

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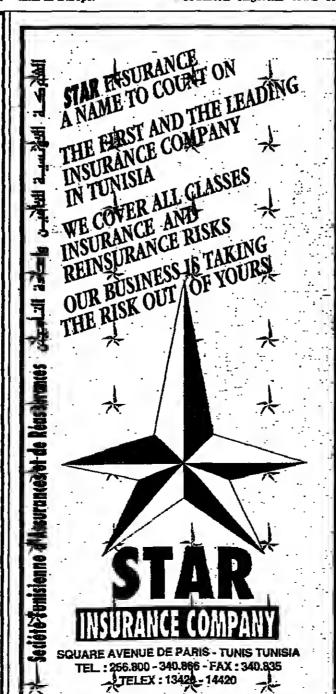
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Francis Ghiles on the role of women in society

## Escaping Islam's past

President Zine el Ahidine Ben Ali is opposed to granting legal recognition to the al Nahda (Renaissance) opposition party whose creed is Islam - is fear that such a move risks undoing what many Tunisians regard as their country's proudest achievement since independence; the corpus of laws which, in 1956, abolished polygamy and gave Tunisian women rights not enjoyed elsewhere in

the Arab world. The "Personal Status Code" is, arguably, former president Hahib Bourguiba's greatest single achievement. It was promulgated the year Tunisia gained independence from France, a year before the new constitution that abolished the

The rights of women were further consolidated last August by the national assemhly. In the case of divorce, for instance, custody no longer goes automatically to the hus-band. Violence against women within the family is punishable, women can request a passport without going through their father or husband and the state helps divorced women to secure ali-

Since 1956 a policy of family planning has been in place. In the early 1960s free and confidential advire and prophylactics were made available to women. Combined with efforts to promote health and education, these policies reduced population growth from 3.2 to 1.9 per cent. The hirth rate has declined from 45 to 25.4 per thousand, mortality from 15 to 6.1 per thousand. The illiteracy rate has been brought down from 87.7 per cent to 35 per cent, though the figure is higher among women in poorer

Women are increasingly visible in teaching, medicine, architecture – in factories as workers, engineers, managers and owners. But Tunisian politics remains very much a man's world, despite some remarkable exceptions, including Fethia Baccouche and Hanoun Houda, who are deputies, two secretaries of state and a handful of senior civil servants such as Fayza Kefi, whose presides over the Union Nationale

Most educated women have no lost love for the teachings

of radical Islamic groups. Though al Nahda leaders have said they accept many of Mr Bourguiha'a inheritance. women are mindful of tha often violent track record of some supporters of the party. notably the throwing of acid in the faces of university students on the campus in Tunis.

History teaches women that radical Islam baa not been aympathetic to the idea of equality between sexes or to their presence in public places.

The history of modern Tuni-sia auggests that the emancipation of women has been a key factor in explaining the country's social and economic progess since 1956. Economic progress has provided a means of emancipation

Women are increasingly visible in architecture,

teaching and medicine

which is far from negligible.

When a new law in 1973 allowed joint ventures to be established for the first time in Tunisia with offshore tax status, a string of factories set up across the country, giving many young women their first taste of freedom.

The simple act of walking to work a few hundred yards from home, away from the all powerful mother, broke many taboos. These women were not well paid but what little they earned allowed them to build up a dowry and gain a measure of freedom in choosing their husband. Once married, many were able to claim help from the state to buy a flat.

Women have 25 per cent of all jobs in Tunisia. 35 per cent of jobs in industry, 22 per cent of jobs in the growing services sector, 40 per cent of jobs in agriculture, where they manage nearly 10 per cent of all farms. They are present everywhere, seldom veiled, and give Tunis and other major towns a strong Mediterranean feel.

Last year's laws are ahead of the social mores of many Tunisians, yet they also reflect the fast changing attitudes affecting many sectors of society. according to Aziza Dargouth, who runs the Cabinet de Prospective Sociale conaulting

Hayet Laouni had her first joh as secretary in a shipping company. 26 years ago, after training to become a primary school teacher. She now owns and runs Stumar, a company with turnover of \$3m and is active in stevedoring, convey-ancing and forwarding. She concedes it has not been easy for a woman to win acceptance in such a milieu, but as she moves around her office, cigarette in hand, firing orders, inquiring whether a particular container has arrived, the feeling Tunisia is undergoing a quiet revolution is overwhelm-

Sarah Sahdallah owns and runs a porcelain factory, Ibtissem Kamoun has become one of Tunisia's largest producers of ice-cream, Rashida Rouissi exports fruit and vegetables. Scores of others are involved in textiles, ice cream and soft-

Such people would not quar-

rel with the policy of the Minister of Education, the highly respected Mohammed Charli, who is having references in school text books that men are superior to women and adulterous women be stoned expurgated. The books of Hassan El Banna, the founder of modern fundamentalism, have been withdrawn from schools and public libraries. To western critics of such moves, many Tunislans point out that wealthy Saudis have, for the past two decades, been subsidising the printing and distributing of books offering the most conservative interpretation of Islam. Why should they be criticised for trying to promote more liberal views?

Educated Tunisian women are well aware that some of their sisters support al Nahda. They agree with attempts to liberalise the economy and are convinced economic growth and a more broadly liberal society are the only serious ways to fight radical Islam. They are fearful of the possible spillover effects of events in neighbouring Algeria and There are fears that Tunisia could be about to lose its charm

## Tourism's unattractive side

TUNISIA'S tourist sector has grown quickly in recent years. Capacity has doubled to 140,000 heds since 1980 and new hotels under construction and building permits suggest that figure could rise to 200,000 by 1998. Investment in new botels nearly donbled to Dinars 200m between 1990 and 1992, with more than 3m visitors traveling to the ahores of North Africa's smallest country every year, earning it between Dinars 830m and

Tonrist receipts cover etween 50 and 100 per cent of the trade deficit, amounting to about one fifth of exports of goods and services. The sector accounts for 5 per cent of GDP and 5 per cent of all invest-ment. The jobs its creates -40,000 directly and 150,000 indirectly - are welcome in a country with few natural

This success story does. however, have its less attractive side. An ever growing number of Tunisians are wondering what will be left of their coastline as they watch the inexorable advance of concrete in places like the island of Jerba. They also wonder what will he left of Hammamet, already the busiest tourist area in the country, when another 13,000 beds are added by the massive Ham-

mamet Snd development. Tunisians with long experience in this sector worry about what they see as the "cheapening" of the Mediterranean's cheapest destination for package tour travellers. They say the strategy encouraging growing numbers of beds to be built in botels with low occupancy rates except in summer is fundamentally flawed. Such a strategy gives international tonr operators, who already dominate the Tunisian market, an ever stronger hand. Critics say that some figures

are misleading. The tourists who really matter are Europeans, but the figures here have not changed much since the late 1980s - 1.6m to 1.8m annually. The balance is made up of Libyans and Algerians whose presence is either finctuating or at times unwelcome. Critics say the policy of subsidising interest rates on

**BUSINESS GUIDE** any harm in it."
Turisians love good food and drink and the choice of restaurants is large. In Turis, L'Astragale and La Closerie are top of the range; the Dar Jeld offers

The country and climate Maghrib, less than three hours from London. For more than 2,500 years, since Queen Dido arrived from Tyre to found Carthage, which today is the residential suburb of the capital, Tunis. degrees C in Tunis, with higher temperatures inland and in the south), temperate in spring and autumn. The north is often windy and wet in winter, the climate more Continental as the visitor

travels inland towards the Algerian frontier. The deep south of the country is true desert climate, more pleasant to visit in the winter and spring than in summer. The Tunisians remain very much as Thomas Shaw the British traveller, wrote of then in the early 18th Century: "The most civilised people who inhabit the coast of the Mediterranean. They addict

themselves to trade and commerce, which induce them to cultivate the friendship of Christians." Getting there Most leading Western airlines fly to Tunisia. GB Airways and Tunis Air have direct flights from Heathrow or Gatwick six days a week. Visas are not required for UK and most other wester

European and American visitors. The dinar currency cannot be bought outside Tunisia. Business hours Government offices work a six-day week closing on Friday and Saturday afternoons and Sunday. Banks and private companies work a five-day

week. Tunis is virtually closed down during August. Cars are easy to hire at principal airports and hotels but are expensive. Do not expect them to be in perfect condition. Tunisian roads are being improved but local driving is, at best, erratic.

In general they are cheap and easy to find. The state has sold off virtually all its hotels. Turnisia essentially attracts package holidaymakers. Some hotels offer good service - the Abou Nawas, Africa and Hilton in Tunis, the Abou Nawas in Gammarth, and the Syphax in Sfax. The Jerba Menzel on the island of Jerba and the outstanding Tamerza. Palace in the desert mountain casis of Tamerza offer excellent service and food and, for the latter, an extraordinary setting.

Eating out "Tunks is a land of liberty," wrote Chevalier d'Arvieux, the French diplomat, three centuries ago, "Religion disturbs no one; they pray God when they must, fast when they cannot do otherwise, dank wine when they have money, get

drunk when they drink too much and no-one finds bank loans for new hotels

sbould be curtailed. They also say that - desplte official encouragement to young entrepreneurs - the cost of money means that only wealthy Tunisians can afford to build new hotels. The sector has attracted many new rich Tunislans whose love of bricks and mortar is far above any

professional capacity they might have to manage a hotel

The critic's fears are borne out by what is happening in Tabarka, a small port lying close to the Algerian frontier. A massive new development of ten thousand beds is under way, three thousand of which have been huilt. The style of new hotels, such as the Mehari

Arts and crafts The variety of good traditional crafts in Tunisia is limited. The Office de l'Artisanat, Avenue Mohammed Cinq, offers the best choice to those who are not specialists and do not wish to bargain

traditional Tunisian dishes such as "couscous" in a

meding. Chez Sigh and Le Cafe Vert in the suburb

reasonable Franch food. In nearby Sidi Bou Said, L'Atlantide is good. Further north, in Garmarth, Le

Bizerta, 60 kilometres north of Tunis, L'Eden offers

Gotfe is pleasant. On the comiche in the port of

good food in pleasant surroundings. In the deep

south, the food at the Tamerza Palace is

tastefully restored traditional house in the old

of La Goulette serve excellent fish; the Cercle Italien and Paradiso good Italian and Tunisian tood; Cesar, Chez Nous and Le Strasbourg

Tunisian carpets (Mergourn or Kairouan weaves remain attractive, well made and very reasonably priced. Old silver jewellery is difficult to locate but can be found in the old medina of Tunis. For those interested in Muslim architecture, the Association de Sauvegarde de la Medina will be happy to show visitors around some of the old houses and shrines of the city. The Bardo museum has the finest collection of Roman mosaics to be found anywhere. One of the palaces of the former rulers, the beys, at Ksar Said, has just been

renovated and opened as a museum.

There are many private art galleries in a country which boasts some fine modern painting. Among the best are Cherit Fine Arts and Ammar Fine Arts in Sidi Bou Said, Gorgi Gallery in Mutuelleville, the Medina Gallery near the Dar Jeld restaurant in the old medina, Chiyem Gallery and the Arts Gallery. both in the new district known as El Menzah Six **Economics** 

For economic information about Tunista, there is little outside specialised publications such as the Conjoncturte Review, ediped monthly by the ministry of economic affairs. Despite recent publications such as L'Economiste, information in the local media is usually mediocre and often

Books to read All principal guide series have a volume devoted to Tunisia. For a lively account of the country's recent political history, Aziz Krichen's Le Syndrome Tunis is useful.

Francis Ghiles

Beach, look like a pale imitation of California. The size of the new buildings sit uncomfortably with the small bouses in the town, which is surrounded with coark oaks at the foot of the Kroumir moun-

Activities are more varied here than in any other Tunisian resort. Golfers enjoy a

spectacular new course virtually all year round, sailors and divers are attracted by the summer months. There is hose hunting in autumn and winter. Is it wise, crifics ask, for the state to spend TD250m in the state w spens 10200m m infrastructure, including the cost of a new airport? Would it not have been more indicious to build a fast road to Tank and cut the time of travelling to the capital from three and a half to one and a half hours? This would have encouraged a flow of visitors throughout the year, quite a part from the benefits it would have brought

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local farmers.
The consequences of careles development is increasingly visible in the south, where small oasis such as Douz are heing ruined by hotels whose architecture destroys the very cbaracter of what is uniquely fragile desert environment. In nearby Tozent. new hotels ignore local archi-tectural style. Yet, due north of Tozeur, in the mountain oasis of Tamerza, an architect Mr Foued Elleuch, and a hotel manager who knows the region well, Mr Mouldi Hached, have produced the perfect Shanghri La. The architecture of the Tamerra Palace blends perfectly with tha crumbling desert mountains against which it is set. It sits dramatically above the abandoned village and oasis of Tamerza.

The interior is a master of simple design, well suited to the barrenness of the desert, which sprawls beyond its walls. The service is excellent and the food delicious. The hotel is attracting discerning travellers. Its success raises key questions about the direction Tunisian tourism will

take. Either the anthorities want to encourage the building of smaller hotels tailored to a specific clientele, who have money to spend, or they will continue to encourage the evergrowing spread of uninspired architecture; hotels for mass tourism whose foreign earning power is increasingly in doubt and whose presence is destroying many areas of the country.

In the book "Medinas" recently published by Dar Ashraf Azouz, the French architect, Claude Santelli, raises a cry of alarm about the number of old, colonial buildings being pulled down. Roman ruins are also being desecrated, such as the pier at Thapsus.

Francis Ghiles

:=:-

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- Availability of skilled labour, engineers and specialised technicians.
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## Hanson softens on voting rights

this issue."

By Norma Cohen, stments Correspondent

HANSON, the Anglo-US conglomerate, said it may be prepared to give in to pressure from shareholders and retract proposals limiting their ability to influence annual meetings.

Mr Martin Taylor, deputy chairman, said it was too late to remove the proposals from the ballot for an extraordinary meeting to be held on June 25.

He said, however: "When we come to review our articles next year we will see if they need to be changed." Mr John Rogers, secretary to

the investment committee of the National Association of Pension Funds, said the group had received similar assurances from Hanson.

The proposals have provoked a storm of protest from two investor groups, the NAPF and Pensions Investment Research Consultants, which advises shareholders on corporate governance issues.

Ms Anne Simpson, PIRC managing director, is urging investors to vote against the proposals. "Companies should he finding ways to improve their accountability to shareholders, not restricting their existing rights. We consider It extremely important that Hanson does not set a precedent on Some shareholders have complained that not only do the proposals severely curtail

their legitimate voting rights, but that Hanson has proposed them in a fashion which makes Also, shareholders will lose voting against them difficult.
The offending proposals are contained in general amendments which seek shareholder approval of a scrip issue supported hy investors - as well as providing for some

The new rules, which share holders will vote on at an EGM, will eliminate the right of ehareholders to nominate a director to the board unless backers represent at least 10 per cent of the vote.

the right to propose amend-ments to resolutions at the meeting unless they represent 5 per cent of the share capital. In addition, the chairman will have an explicit power to refuse to call for a poll on any Item hy shareholders which in his opinion is "irrelevant" or "vexations".

\$565m (\$561m) hut the pre-tax

result was affected by lower

profits of \$2.2m (\$16.8m) on the

Earnings per share fell to 2 cents (15.9 cents) and the final

dividend is omitted, making 1

RCO Holdings, a supplier of

integrated site support ser-

vices, announced a 6 per cent

rise in pre-tax profits from

£2.27m to £2.41m for the 27

The interim dividend is increased to 4.95p (4.62p) on earnings per share of 14.71p

Hambros Inv Trust

Hambros Investment Trust had

a net asset value of 47.11p per

share at March 31 against

46.44p six months earlier and

46.78p at the previous year end.

months fell to £31,843 (£49,065).

Losses per share were 0.02p

Net revenue for the 12

net asset value up

cent (7 cents) for the year.

RCO expands 6%

to £2.41m

weeks to April 4.

sale of investments.

#### on BT sale By Peter John

to restrict

incentives

THE GOVERNMENT WILL today announce the price for the first instalment of its £5bn BT stake sale and will take a harder line on incentives than in previous privatisations.

Discounts for private investors will be 10p a share for the econd and third instalments rather than 15p previously and the bonus for existing share-holders will be 1-for-15 rather than 1-for-10 as before. The discount for the first instalment will be announced later and will depend on demand.

The cntbacks have been prompted partly by the gov-ernment's need to raise as mnch cash as possible to counter its heavy public borrowing deficit.

Also, encouragement for institutions not to sell short and drive down the underlying share price ahead of the issue pricing means that the discount offered can be tighter. Lower interest rates and lower returns from building societies increase the attraction of BT shares and reduce

ficially. Advisers to the issue, which is being handled by SG War-burg, have signalled that the price for the initial payment of the issue will be between 140p and 150p.

Although the issue is expec-

the need to boost the sale arti-

ted to be oversubscribed there are industry and market worries which could drag down

share prices afterwards. The long-awaited Monopolies and Mergers Commission report into British Gas will land on ministers' desks just after the issue and highlight regulatory uncertainty. Also, some analysts believe the impact of wider competition, particularly from cable opera-

tors, has been underestimated. Meanwhile, the stock market is waiting to see the fate of the £1.3hn Zeneca rights issue which closes on June 21. If a significant amount of stock is left with the underwriters and the issue is considered a flop it could depress the stock market and affect the RT sale.

## Government Policy Portfolio poised for main market with £11m tag

By Philip Coggan, Personal Finance Editor

POLICY Portfolio, a marketmaker in second hand endowment policies, is planning to join the main market next

The company is likely to raise up to £5m via a placing, sponsored by Charterhouse Tilney, and will have a market capitalisation of about £11m. Endowment policies are fre-quently used in the UK as a means of repaying a mortgage.

Returns on so-called "with

profits" endowments can depend heavily on a terminal bonus, which is only paid to those who keep up policies for the full term, often 25 years. Those who give up their pol-icy before the full term normally receive a "surrender value" determined by the life company. The second hand

Isaac Rubin: group has 10 per cent of second hand market who were dissatisfied with sur-

render values sold their poli-

cles to third parties, who

intended to keep up the pay-ments and receive the full ben-

efit of the terminal bonus. Policy Portfolio, a member of FIMBRA, was founded in 1988 by Mr Isaac Rubin who had himself invested in second hand policies in the early

The group hays policies from investors and attempts to sell them at a profit. To date, the group has financed itself from bank borrowings and the issue will give it the capital base to

expand. Pre-tax profits have green from £245,000 in the year to March 31 1991 to an estimated

2317,000, on turnover of 2731m in the year to March 31 1993. The market for second hand policies was about £80m bast year, giving Policy Portfolio a market share of 10 per cent behind Foster & Cranfield and Beale Dohie - part of the quoted Hambro Insurance Ser. vices. The second hand market is expanding rapidly in response to the large number of endowment policies sold in

## Perpetual Japanese listing

Perpetual Japanese Investment Trust, the first investment trust launched hy Perpetual, the Henley-based fund management group, is joining the stock market through an offer for subscription designed to

Up to 60m shares, with warrants attached, are being

offered at a price of 100p each. Investors will receive one warrant with every five shares issned, giving rights to sub-

scribe for ordinary shares at 100p each in each of the years 1994 to 2000. The trust will have an initial life of 10 years. Dealings are expected to begin on July 8.

#### BP France has recomm

**BP France** 

acceptance of the offer by RP Europe, itself part of British Petroleum, for the 14.01 per cent of the French company's chares it does not already own The offer price is FFr120 per share, excluding the 1992 dividend. This gives sharehold a premium of 43 per cent on the last quoted price.

Decline

demand

Kone re.

CROSS BORDER M&A DEALS							
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT			
Sera Lee (US)	Unit of SmithKline Beechem (UK/US)	Tolletries	£211m	Non-core brands sold			
English China Clays (LIK)	Calgon (US)	Speciality chemicals	£202m	Developing sector strategy.			
International investors	Bran & Luebbe (Germany)	Engineering	£85m	Buy-out from Alfa-Laval			
Service Corp (US)	Pine Grove (Australia)	Funeral services	£46m	Service Corp's overseas debut			
Costs Viyella (UK)	Berghaus Internetional (Netherlands)	Clothing	£35m	Improving European distribution			
United States Banknote Corp (US)	TDLR (Brazil)	Security printing	£30m	De La Rue exits Brazil			
BSN (France)	Best Corporation (New Zealand)	Food ·	£7m	Taking 20% stake			
Micro Focus (UK)	Proximity Software (US)	Software	£2,6m	Consummates - existing relationship			
TCI (US)	Cable Soft Network (Japan)	Cable TV	n/a	Stake in Japanese market			
Autogrili (Italy)	Procace (Spain)	Catering	n/a	SME arm developing			

### **Business Technology** £6m in red

RESTRUCTURED Business Technology Group, which sells and services office equipment, announced pre-tax losses of £6.31m for 1992. Losses last time of £7.44m have heen restated in accordance with

Turnover amounted to £20.2m (£42.4m) and the pre-tax result was after a loss of £271,000 on disposal of fixed assets, a £3.82m loss on the sale or termination of businesses, and £792,000 of costs associated with the reorganisatioo of the group's activities. Losses per share were 32.7p

#### Sharp decline to £0.22m for A Cohen

A reduction in pre-tax profits from £783,000 to £215,000 was announced by A Cohen for

Turnover for the company, which makes non-ferrous metal ingots and is involved in the reclamation and trading of recyclable material, declined to £78.4m (£83.7m).

The company hlamed recession in all its markets for the result and the large imbalance between demand for and supply of aluminium.

The deficit after tax was £512,000 (£343,000), equivalent to losses per share of 31,68p

(21.2p). The proposed final dividend is maintained, however, at 3.4p, giving a reduced total

#### Somic returns to the black with £81,000

Cost reductions enabled Somic. a maker of yarns and woven fahrics, to return to profits in the year to March 31 with £81,000, compared with losses of £114,000.

Mr Richard Blackburn, chairman and managing director, said that turnover remained depressed but planned reduc tions in costs had belied ensure a return to profits in the second half.

The result was also helped hy higher investment and Interest income of £106.000

Turnover was £3.59m (£3.5m). Earnings per share were 3.86p (2.83p losses) and the proposed single final dividend is 1.5p (1p).

#### AF Bulgin losses increase to £212,000

Higher exceptional costs contributed to pre-tax losses increasing from £107,000 to £212,000 at AF Bulgin, the electrical components maker, in the year to January 31.

Directors said that the year had been extremely difficult, but trading had improved in the first three months of the present year at all three sites. Two purchases had been

made since the period end,

with one already having an

Sanwa International pla

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From Monday, 14th June, 1993, our offices will be located at:

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Trading

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**Financial Engineering** 

effect and the benefits of the

**NEWS DIGEST** 

other expected later in the Turnover was £12.6m (£12.2m) and losses were after exceptional costs of £141,000

board changes deemed to

improve the group's corporate

Losses per share came out at 0.76p (0.4p) while an unchanged single final of 0.1p is proposed.

#### Write-offs behind Beauford's downturn

Pre-tax losses at Beauford Group, the manufacturer of materials handling equipment and machine tools, leapt from £3.59m to £26.4m in the 1992

Of the loss, almost £21m related to goodwill written off under new accounting standards and had no effect on cash or net assets, the company said.

Turnover was down £4m to £34.1m. At the operating level losses amounted to £2.46m (£18.000).

Net interest payable fell from £2.21m to £1.72m as borrowings were cut from £17.5m to £11.7m. Losses per share were

#### Vtech shows sharp decline to \$8.5m

Vtech Holdings, the Hong Kong-based electronics, computers and telecommunications group, announced reduced pre-tax profits of \$8.5m (£5.5m) for the year to March 31. Profits last time amounted to \$24.6m. Turnover edged ahead to

#### Oriflame raises £4.4m in placing

Oriflame International, the cosmetics manufacturer, is raising £4.4m through the placing of 1.75m shares, representing 3.3 per cent of the issued share capital, at 250p. The shares are at present

held as treasury shares.

## BusinessWeek

This week's topics:

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THE REPUBLIC OF ICELAND

U.S.\$125,000,000 Floating Rate Notes Due 2000

("The Notes")

Notice is hereby given that in accordance with Condition 5(b) of the Notes The Republic of Iceland (the "Issuer") will redeem all Notes relating to the above issue at their principal amount on the next interest payment date, 19th July 1993 (the "Redemption Date") when interest on the Notes

forment of principal will be made on presentation of the Notes at the pecified offices of the Paying Agents.

Coupons due 19th July, 1993 should be presented for payment in the

Upon the redemption date unmatured Coupons relating to such Notes (whether or not attached) shall become void and no payment shall be made in respect themsel.

Notes and Coupons will become void unless presented for payment within a period of 10 years in the case of Notes and 5 years in the case of Coupons respectively from the relevant date (as defined in Condition

By: Calibrank, N.A. Fiscol and Principal Paying Agent CITIBANCO

ine 14, 1993, London

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Compose N°12 due àrana June | 1, 1993 to December | 13, 1993 will be payable starting December 13, 1993 at the rate of 10,30%

SANPAOLO-LARIANO BANK S.A.

Takugin International (Asia) Limited US \$40,000,000

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US\$ 174,000,000

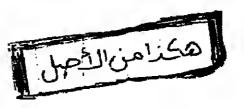
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Notes also 2000

In accordance with the provisions of the Notes, notice is hereby given that for the latterest Period from 11th June 1993 to 13th September 1993, the Notes will beer a rate of interest of 3,625% per annus.

The interest amount payable on 13th September 1993 will be US\$ 9,465.28 per not Del-Icht Rangyo dank
(Lixemborry) S.A.
Agent dank





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#### COMPANIES AND FINANCE

## Ibos payment network set Microsoft to link with US banks

By John Gapper, **Banking Correspondent** 

UP TO five US banks are this year expected to join the Ibos cross-border payments network, operated jointly by a group of European banks. Their decision is likely to start bringing the network into competition with the Swift system that dominates European Community cross-border payments.

Ibos, started by Royal Bank of Scotland and Banco Santander, will also launch in autumn services aimed at small and medium-sized businesses, allowing companies remote computer access to their overseas accounts.

The Ibos network links 2,500 branches in Europe owned by the two founding partners, Credit Commercial de France, and Banco de Comercio e Industria in Portugal. However, the group is negotiating with several US banks to link

Decline in

demand hits

Kone result

KONE, the Finnish maker of

elevators and cranes, said prof-

its before taxes and allocations

months, to FM69m (\$12.7m),

from FM78m at the same stage

last year. It blamed the decline

Kone said although it saw no

signs of revival in demand in

the rest of 1993, it expected an

improvement later in the year

Saies at Kone Elevators,

which represent 73 per cent of

group turnover, grew 16 per

cent in the first four months,

lifting overall sales to FM3.6bn,

a 15 per cent improvement

over last time. However, some

two thirds of the growth in

near 20 per cent decline in the value of the Finnish markka

following its flotation.

on falling demand in Europe.

By Hugh Carnegy

1992's FM479m.

1 Tunce

it to branch networks there. Such a link would boost traffic through the network considerably. There are expected to be 23,000 transactions total-

ling \$150m this year through lbos. The lbos system allows transfers among accounts within seven seconds, but the network is capable of handling up to 40,000 a day. The ibos partners are consid-

ering how to extend the network to the US, and are likely to admit several banks to cover the country. One possibility is that one bank will be licensed to offer lbos services in each state, with each participating bank holding several licences.

Tha Ibos network is lossmaking, in contrast to the Swift network to which all European banks have access and which bad revenue of \$350m in 1991. However, its partners expect it to enter profitability in about 18 months. and then achieve rapid growth. £15 for Express Swift.

The partners in Ibos - which stands for Inter Bank Online System - are also negotiating with banks in Belgium, Austria, Holland and Germany to establish partners in those countries. They expect to build a larger share of the \$12bn market when this is done.

Mr Norman McCluskie, managing director of Royal Bank of Scotland's operations division, said the Ibos partners had so far concentrated on ensuring tbe system worked reliably, Now, however, they expected strong growth. "We see ourselves in a very dramatic position," he said.

Ibos is being marketed as being cheaper and faster than Express Swift transfer via a central computer in Brussels. Customers who hold accounts at the banks in the network are estimated to be able to transfer £3,000 (\$4,620) for a fee of £6 through Ibos compared to

## Vard to reveal sale of ferry business

VARD, the Norwegian cruise and ferry group, expects to announce the disposal of its ferry business this week, according to a senior executive

declined in the first four in the company.

Trading in Vard's sbares were suspended temporarily on Friday in Oslo and London, On Thursday Vard's shares closed on the Oslo bourse up NKr3 at NKr25, and were the second most ectively traded with 3 per cent of the share capital worth NKr23.8m (\$3.44m) changing to produce a full-year profit at "nearly the same levei" as bands.

Mr Trygve Hegnar, a Vard board member, on March 15 made an "indicative" offer of NKr1.2bn for the ferry business, which includes the Scandi and Larvik lines.

Union Bank of Switzerland is leading negotiations on behalf of Mr Hegnar and a group of financial investors, while Mr sales were attributed to the Truls Sanner, Vard's chief executive, is negotiating on behalf of the board. Mr Hegnar

is also Vard's second biggest shareholder with an 11.8 per

cent stake in the group. In Vard's 1992 accounts, the three ferries which make up the fleet were booked et a value of NKr455m.

Vard forecast a "satisfactory" result in 1993 for the ferry business. Last year, the business achieved its best result ever, posting a net profit of NKr123.7m egainst NKr104.5m in the previous year. In the first quarter of this year, however, it saw losses widen to NKr32.6m from NKr5m in last time.

Domestic analysts estimate proceeds of the disposal will reach \$170m. About \$120m will be used to pay off the bulk of the \$220m worth of debt of Vard's holding company. The rest will be used to service remaining debt and cover over-

Vard is also seeking to dispose of just over 50 per cent of Miami-based Kloster Cruise, its cruise business.

NOTICE OF REDEMPTION Molinos Rio De La Plata S.A. 11% Class S Negotiable Obligations Due 1992-1995

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## in talks on cable TV venture

By Patrick Harverson In New York

MICROSOFT, the US computer software group, is io talks with Time Warner, the entertainment group, and Tele-Communications Inc, the big cable television company, to set np a joint venture to develop inter-active software for television, according to news reports.

Although the three companies have not commented on the reports, their negotiations are expected to lead to the establishment of a new company producing software for cable television boxes.

The software would provide cable subscribers with access to a wide array of interactive information and services. It would allow them to shop by television, view individuallyselected news and statistics, or from a vast electronic library.

The link-up between Microsoft, Time Warner and TCI would represent the latest in a series of moves by large computer, entertainment and communications companies joining forces to develop interactive media technology for cable television users.

In April, Microsoft annonnced it was getting together with the micro-chip manufacturer Intel and cable hardware company General Instrument to develop a cable TV box with a built-in interactive personal computer.

#### Trust banks

IN reference to a report in the Financial Times on June 1, Japan's seven trust banks say they did not change their accounting procedures, and counted as revenue only cash received on their trust accounts, and did not utilise basis accounting accrued

The banks attribute their improved operating profits for the year ending in March to favourable margins on interest rates, which fell during the period, and to cost cutting.

## Enron thrives in an open market

David Lascelles charts the rise of 'the US's biggest natural gas group'

tightly controlled natural gas business in the US has opened up opportunities for energy companies, none more so than for Enron. based in the US oil and gas

Non-existent 10 years ago, Enron has mushroomed to the point where it claims - with some justification - to be "the nation's largest oatural gas company". Its status is embodied in the shiny skyscraper it occupies in the city centre next to other giants of the energy

Enron was born in 1985 from the merger of a natural gas and a pipeline company. It owes its rapid growth largely to decisions taken by the Fed-eral Energy Regulatory Com-mission (FERC) to lift decadesold controls which restricted the operations of gas companies and put a lid on prices. in particular, the "unbundling" of gas transportation and sales services gave greater freedom to companies to compete.

But two other factors also played a role. One was the changing perception of gas from a by-product best flared off at the wellhead to an efficient, environmentally friendly fuel ideal for power generation. Another was the view of Mr Kenneth Lay, Enron's chairman, of the gas market as one

of boundless opportunity. Today, Enron is in all important stages of the gas business. It has an exploration and production arm through its 80 per cent interest in Enron Oil and Gas: it owns a 40,000-mile network of gas pipelines extending up towards the Great Lakes and outwards to Florida and California; it provides gas supply and distribution services, and downstream it builds and operates power sta-

The area of the market where Enron has been spe-cially successful is in exploiting the new freedom to market gas. Its gas services division has built up e speciality in designing teilor-made long-term supply contracts for customers using sophisticated bedging and financing tecbniques. It also trades heavily in the gas market: 10 per cent of all the gas bought and sold in the US passes through Enron's

hands. This gives it a liquidity few competitors can match. Although the biggest part of Enron's growth has come in the US, it has also exported its vision of a gas conglomerate. in April, the company opened a 1,875MW power station on the UK's Teesside. Enron owns 50 per cent of the \$1.2bn facility, which it expects to be the precursor to others in the UK. It is also negotiating projects in india, Germany, Turkey and Kuwait, and it has bought a stake in a pipeline network in Argentina.

The strong expansion in electricity demand predicted for the Third World over the next decade is all factored into Enron's growth plans.

The weve carrying Enron forward has been reflected in its results. Earnings have risen at a compound annual rate of nearly 30 per cent since 1988.

reaching \$306m last year. And Mr Lay is confidently predicting growth of another 20 per cent this year. "All our busioesses are doing e bit better,"

he says. Mr Lay bases this optimism on the strength of the US gas market. After years of glut, he reckons that supply and demand have finally come into balance, and this is reflected in the rise in gas prices to as much as 60 per cent over last year's levels. According to US government statistics, US gas demand rose 4.3 per cent in the first quarter of this year, but production went up less than 1 per cent.

owever, further out, Enron expects US nat-ural gas growth to be strong well into the next century. Its latest forecast puts demand at 22,000bn cu ft in the year 2000 (it was 18,000bn last year), rising to more than 25,000bn in 2010. Enron's estimates of US gas reserves are also rosy: they suggest there is enough to last 71 years.

Much of the rest of the US energy business seems to share Mr Lay's enthusiasm for gas. Other large companies such as Mobil, Shell and Exxon see a good part of their future growth coming there as well. Not everyone, however, is as optimistic about the level of reserves. Mr Robert Hermes. president of Purvin & Gertz, a Houston firm which specialises in oil and gas research, says: "The ettitude is that we've got

all we want. People are over-

optimistic. We have been living

off a surplus, but that day is

He points out that the strength of the gas price has not sparked e surge in exploration activity because people are worried about the volatility of the market.

Another poteotial cloud on Enron's horizon is the energy tax being proposed by President Bill Clinton. Although it is still not clear what form it will take, Mr Lay says he is confident it will be e tax on eoergy consumers rather than energy companies. That, be says, is "a tax we can live

But can Enroo keep up the pace now that the initial flush of deregulation is over and strong competitors are moving into the market?

Mr David Fleischer, gas industry analyst at Goldmao Sachs, believes it can. He is predicting long-term earnings growth for Enron of 15 per cent. "It's an even better managed company than most people think it is," he says. "Mr Lay has turned it round during a period which buried many other companies.

Mr Lay's response to coocerns about Enron running out of steam is that it is wrong to view the fast five years as ones of exceptional growth for the natural gas business. For much of that period there was still regulation and uncertainty, and Enron's success came in spite of rather than thanks to events. "The market growth will be bigger in the next five years than in the last," he fore-

#### **Tetra Laval** sells unit

TETRA LAVAL, the Swedisb food packaging and equipment group, has made its first big disposal since the takeover of Alfa-Laval in 1991. It has sold German-based Bran & Luebbe in a DM210m (\$130m) leveraged buy-out, writes Andrew Bax-

CWB Capital Partners, a London-based acquisition fund, is buying B&L, one of the world's leading suppliers of dosing pumps, industrial analysers, and electronics for

cess automation. The deal is believed to be the largest leveraged buy-out in Germany in three years.

Bank financing is being provided by Dresdner Bank, Deutsche Bank and Citibank. Rhein Donau Capital Partners, a fund managed by Goldman Sachs, has taken a substantial minority stake in the transaction, and Hancock International Private Equity Partners has also made a minority investment.

**NEWS IN BRIEF** 

R. H. Macy, the bankrupt industrial weighing and pro-New York-based department store group, made a \$54m operating loss in its third quarter, to May 1, down from a \$60m deficit in the same period last year, writes Nikki Tait in New

> The after-tax loss stood at \$228m, but this includes "reorganisation" items of \$182m related to store closures and other changes. The net ioss in the same period of 1991 was \$226m after reorganisation items of \$166m.

■ Standard & Poor's and Moody's, the two largest US debt rating agencies, said they were reviewing the ratings of H. J. Heinz for a possible downgrade, writes Nikki Tait.

The announcements came after directors of Heinz, the Pittsburgh based food group, authorised the "buy-back" of up to an additional 10m ordinary shares.

Heinz has an existing share repurchase programme, which began in December 1991 and was also for 10m shares. However, it now has only 300,000 shares left to repurchase under this earlier authorisation.

## TOTAL

NOTICE TO SHAREHOLDERS DIVIDEND PAID IN SHARES

Ar TOTAL general shareholders' meeting on June 2, 1993, shareholders approved a resolution whereby they may elect to receive their dividend either in shares or in cash. The 1992 dividend amounts to seven french francs a share, excluding the associated tax credit.

#### **DIVIDEND PAID IN SHARES**

The shares which would be issued to shareholders electing to receive the dividend in shures have been priced at 225 French francs each, corresponding to ninety percent of the average share price during the twenty trading days preceding the June 2, 1993 annual meeting, less the amount of the dividend net of tax credit and rounded up to the next franc. On June 2, 1993 TOTAL shares cum dividend opened on the Paris Bourse at 264,50 francs.

FRACTIONS. When the total dividend does not give the right to receive a whole number of shares, the shareholder may elect to receive the next lowest whole number and receive a cash payment corresponding to the remaining fraction, or may chose to receive the next highest whole number of shares and pay the each amount corresponding to the remaining fraction. The eash payment is to be made when the election to receive shares is requested.

ELECTION PERIOD. Shareholders may elect to receive their dividend in shares from June 14, 1993 to July 9, 1993 inclusive by making the request through their financial intermediary. After July 9, 1993 if no election is made the dividend will be paid only in cash as from July 30.

DIVIDENO RIGHTS. The new shares will carry dividend rights from January 1, 1993.

#### CASH PAYMENT

PAYMENT PERIOD. Shareholders may request immediate payment of the dividend in cash from June 14, 1993 to July 9, 1993. If no request is made during this period, the dividend will be paid as from July 30, 1993.

For further information, please contact TOTAL Services aux Actionnaires 3311142913251

Tour TOTAL - 24 Cours Micheles - cedex 47, 92069 Paris la Défense, France

#### SOLVAY S.A.

ng coupes to the La Pinta S.A.

The general meeting of 7th June 1993 approved the distribution for the financial year 1992 of a net dividend of SF500 on year 1992 or a net uniformed of 6F400 bearer shares. The final dividend of 6F400 will be payable by BF duaft, by unturfer to a ar necessar, or, is sterling at benkers' sight will do payable, or, in sterring at bankers' sight buying rate for Gelgian france on the day of presentation at the option of the holder against presentation of Compon No. 51 at olither of the following offices:

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en the hours of 10km and 20m on o after 22nd June 1993 UK tax will be leducted from the net dividend unless lodgements are accompanied by the sary affidavit. Payment can be made only to persons residing conside the Belgo-Lexembourg Customs Union. Sharsholders hould note that under the terms of the UK/Beigian Double Taxation Convention Solvey shareholders resident in the UK are singular upon submitting a duly completed from 276 DCV, to portial reinburstment of Belgian withholding tax equal to 20 nt at the net dividend.

Finance for Danish Industry International

Yen 5,000.000.000 Guaranteed notes due 1994

Notice is hereby given that for the interest period 14 June 1993 to 13 December 1993 the notes will carry an interest rate of 4.53% per annum. Interest payable on 13 December 1993 will amount to Yen 2,258,795 per Yen 100,000,000 note.

Agent: Morgan Guaranty Trust Company

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## The spirit of Sabanci is now a new force in international banking

Ak International Bank Limited ... a UK-based bank and part of the Sabanci Group - one of the world's largest industrial and commercial conglomerates which also owns Akbank · Turkey's leading private-sector bank... has changed its name to Sabanci Bank pic, though there is no change in the shareholding.

Banks don't normally change their names - but the decision to do so by Ak international Bank is to reflect the standing of the Sabanci Group in the international arena. Since it was established in London in 1983, Ak International Bank has grown considerably in terms of assets (£553 million in 1992) and pre-tax profits (£7.7 million in 1992). It is also strongly capitalised with £67 million including reserves.



For details, please contact Denis Long, general manager.

Sabanci Bank plc, 10 Finsbury Square, London EC2A 1HE Telaphone: 071-628 3844 Telex: 8955636 AKIL G Fax: 071-638 2037

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Standard Chartered PLC

US\$400,000,000 Undated Primary Capital Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Determination period from 14th June 1993 to 12th July 1993 the Notes will carry interest at the rate of 3.6875 per cent. per annum.

Interest accrued to 12th July 1993 and payable on 12th July 1993 will amount to US\$28.68 per US\$10,000 Note and US\$286.81 per US\$100,000

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**FUTURES PAGER** 

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## Bank's offering fails to discourage demand

by the Bank of England that £700m of bonds will be on sale from today failed to puncture generally good demand for gilts from overseas investors, While the short end of the

yield curve suffered a little as an imminent cut in base rates appeared to diminish, conti-nental European and US institutions were seen as moderate buyers of gilts as sterling suffered little fall-out from fresh signs of UK political instabil-

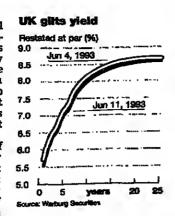
There was some support for gilt purchases from indications that Conservative ministers were preparing for tough action to bold back public spending. Such moves could in time curb the rising public sector borrowing requirement and push up gilt prices.

During the week, yields fell along the curve, by around 10 basis points at the 20-year area and by somewhat less for securities maturing in the next five years.

The Bank said it would sell £700m of the 8.75 per cent Treasury stock due 2017. This is part of the massive effort hy the UK authorities to fund the PSBR. expected to be £50hn this financial year. Taking into account some over-funding last year, and other factors, this is expected to necessitate gilt sales of around £40hn.

While such a large stock of bonds will almost certainly depress prices along the gilt curve, there is some support for the notion that inflationary pressures are not too much of problem for the foreseeable

This is reflected in the market expectations about the the latest figures for the retail prices index due this Thursday. In the year to last month, according to the City consensus, the increase in the RPI will turn out to be just 1.4 per cent, as opposed to the 1.3 per cent year oo



year rise recorded in April. Expectations are that the year on year increase in the RPI, excluding mortgage costs, will turn out to be 2.9 per cent. the same as in the year to May. Last week, Mr Eddie George, who will soon be governor of the Bank of England, went out of his way to cast doubt on

ideas that inflation in the UK was beaten. He said this certainly was not the view of the gilt market, with 10-year yields at around 8 per cent as opposed to base rates of 6 per

With a strong warning against any new reductions in short-term borrowing costs, Mr George's speech pushed up yields a little at the short end of the gilt curve. This was on the basis that Mr Kenneth Clarke, the new chancelior, would be likely to take heed of the governor designate in any new ruminations about interest rate changes.

However, Mr George's strictures about inflation settled investors in longer-term securities. Many of them reckon the new governor will be in a better position to use his influence over interest-rate decisions than was Lord Leigh-Pemberton, the current governor whose term of office ends in two weeks.

market from the broadside at government policy by Mr Norman Lamont, the ex-chancellor, in the Commons last week were extremely limited. As one market observer put it, the general atmosphere of fragility surrounding the government is already reflected in stock prices and Mr Lamont's comments did little to alter the situation.

Thare was general lack of interest in the deposed chan-cellor's comments that for over two years he had tried to per suade Mr John Major of the necessity of making the Bank of England independent in

monetary policy.

This was seen as largely an academic affair, even though It was one small step along the road towards taking interest rate decisions out of the hands of politicians. One person closely acquainted with the Bank's operations said: "There's not a snowball's chance in hell of the Bank being made independent in the

next two to three years." Gilts were given something of a boost by the investor selling last week of the D-Mark which helped other currencies, particularly sterling. Also, the leaking of government plans to look closely at ways of constraining rises in social security spending, which accounts for about a third of all government spending, helped to put a floor under gilt prices.

Peter Marsh feel-food factor hy saying the

## Socialist victory keeps dealers bullish for now

ONE month ahead of the Pamplona hull-running fiesta that Ernest Hemingway put on the map, the Spanish government bond market bulls are already out in force.

Government bonds have leapt forward on the news of Mr Feline Gonzalez's re-election. As the market sees it, he stands for a strong commitment to the ERM. And although he was short of a majority, the parliamentary shortfall means that Catalan nationalists, with all their alleged fiscal probity, will

shore up the new government. The rally finally flattened the yield curve and brought the long bond down hy more than 20 points to below 10.80, with just a 65-basts point margin over the three-year bond. Earlier this year the differential had been at least one percentage point.

It looked like good news all the way. Pragmatic politicians were in place, the currency risk was fading, and interest rates would fall at a reasonable pace. The pre-election alternative had been the inexperienced right-wing opposition party gaining power, cutting rates and possibly suspending ERM membership.

The market felt there was now room for Spanish rates to ease in the wake of German cuts. Bank of Spain governor Mr Luis Angel Rojo fuelled the

peseta was back on the track of being linked into Germany.

It is likely investors will be reassured about currency stahility over the summer as Spain's tourism industry, powered hy three devaluations since September, begins to

make a significant impact on the current account deficit. But that is possibly as far as the good news goes. More ceutious analysts believe the rally could hit a wall well before September. There are already signs of nervousness over the apparent inability of President Gonzalez to secure quickly his

victory of a week ago. The market does not like squabblee in Mr Gonzalez's socialist party over whether the Catalans should be invited into the government or not. Nor does it like similar quarrels among the Catalans about whether any invitations should

Should the political impon-derables resolve themselves, the crunch is likely to come after September, when the markets start looking at inflation, unemployment, and the budget deficit.

The May inflation figure published today is expected to show a year-on-year figure unchanged at 4.6 per cent and underlying inflation unchanged at 5.8. in June, when the latest devaluation inflation works through to prices, inflation could start to climb and

FT/ISMA INTERNATIONAL BOND SERVICE

figure of almost 5 per cent. Unemployment could look increasingly grim as the econ-omy enters the fourth quarter. Last month registered unemployed fell by less than 1 per cent, the lowest May fall for 10 years, to stand at 16.3 per cent of the working population.

The budget deficit - 4.4 per cent of GDP according to the government and nearer 6 per cent according to the conserva tive opposition - could be another headache.

If Mr Conzalez was unable to reduce deficits effectively in the past, when he had a strong majority and the economy was growing, how, economists. might ask, will he rein in epending in the middle of a recession and at the head of a

coalition government. It could well be that the rate cuts, should they occur, will not look so impressive in three months. Even if there are significant German cuts, Spanish rates are unlikely to fall below 9 per cent, and real interest rates will remain at around 4

per cent. That scenario suggests there could be renewed speculative attacks on the peseta in Sep tember. The difference this time will be that the peseta might not be able to avoid following the route of the pound and the lira.

Tom Burns

#### **US MONEY AND CREDIT**

## Wall Street relaxes inflation watch

JUDGING by the recently line and core CPI numbers will released May producer prices index, it looks as if the inflation scare may he over. At least it should be by tomorrow, when the second half of the monthly inflation data - the consumer prices index - is

If the CPI numbers are as reassuring as the PPI numbers were (wholesale prices were unchanged in May, and the core rate, which excludes the volatile food and energy components, was up only 0.2 per cent), then the bond market faces relatively plain sailing

After a month of navigating choppy waters whipped up hy fears that rising inflation would lead to higher interest rates (it was a month in which the yield on the 30-year bond rose from just under 6.8 per cent to over 7 per cent), fixedincome investors must be looking forward to a little tran-

First, however, they will have to get past the final hurforecasting that both the head-

....

show an advance of 0.2 per cent for May. This would be a significant improvement from the average 0.4 per cent growth registered over the first four months of the year.

If the CPI numbers come in substantially above forecast, then the Federal Reserve could choose to tighten monetary policy, the weak May PPl numbers notwithstanding. Sucb a tightening would probably take the form of a 25-basis point rise in the federal funds rate, to 3.25 per cent, rather than a fully-fledged increase in the discount rate, which has been at 3 per cent

Overall, however, Wall

Street has relaxed its inflation watch. Most analysts estimate that inflation will top out at the 3 to 3.5 per cent range for 1993. There is growing belief that the 4 per cent-plus inflation rates seen earlier this year were a short-term hangover from the unexpectedly strong economic growth registered at the end of 1992. It was growth that encouraged some produc-

down since then should see prices come back from the

early-year highs. Amid all the fuss over inflation, the Clinton administration and the Fed have continned to dance a delicate

two-step. Last week President Clinton met with Fed chairman Mr Alan Greenspan and reiterated the administration's stronglyheld view that the economy was not strong enough to withstand an interest rate rise. The chorus of politicians warning the Fed not to put up rates got even louder after the favourable PPI numbers were

At the same time, Fed governors, led hy Mr Lawrence Lindsay, were warning that the Fed was prepared to raise interest rates if inflation looked as if It might get out of hand. Mr Greenspan himself, however, said in a letter to a senior Congressman last week that he was disappointed by the poor rate of economic growth in the first quarter, and that promoting sustainable economic ers and retailers to raise their expansion remained a "crucial

Although the bond market

was not quite sure what to make of all this, its attention this week should ewitch quickly to more overtly political matters - such as the prog-ress, or otherwise, of the President's deficit-reduction package, currently making its way through Congress.

In the past week, the chances of the package heing passed by the Senate have improved, although at the cost of the energy tax, which analysts say will prohably be dumped by the administration in favour of a combination of some kind of transportation or petrol tax and fresh cuts in

The market has so far taken the horse-trading over the economic package in its stride. As Ms Kathleen Stephansen of securities house Donaldson, Lufkin & Jenrette says: 'At this stage of the dialogue the composition of deficitcutting measures is less important than achieving the

Patrick Harverson

## **Good start for Fortis**

The first quarter of 1993 was favourable for Fortis. Total revenues rose by 15% from ECU 2,220 million to ECU 2,543 million. The operating result went up by 12% to ECU 90.4 million and net profil increased by 14% to ECU 85.1 million. This growth is due in part to the consolidation of the joint venture CAIFOR in Spain and of VSB Bank in The Hague. Exchange rate fluctuations had a noticeable positive influence on Fortis' lotal revenues and results in the first quarter of 1993.

#### Key figures Fortis first quarter 1993

In ECU milion 7	1993 1992 % increase
Total revenues	2,543 2,220 + 16
Operating result	90.4 80.6 + 12 85.1 74.5 + 14
( Float	85.1 74.5 414
	31-03-1993 31-12-1992:
Net equity	3,516 3,340

. 1 ECU = 0.80 Sterling

#### Key figures parent companies tirst quarter 1993

	AGG	oup (in BEF")	N.V. AN	IEV (in NLG*)
19.4	1993	1992	1993	1992
Earnings per ordinary share.	45.8	40.9	1.55	1.42**
	31-03-1993	31-12-1992	31-03-1993	31-12-1992
Equity per ordinary share	1.976	1,858	71.92	67.64

' 100 BEF = 2.00 Slerting 1 NLG = 0.37 Storting

**Prospects** 

In view of the results achieved in the first quarter of 1993, Fortis stands by its forecast for the whole of 1993. The operating result and not profit are expected to at least equal

Fortis: a united force in financial services

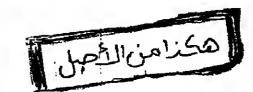
Fortis is an international insurance and banking group. Fortis' activities are widely spread, both geographically and in terms of products. Since its creation in December 1990, the group has implemented its strategy resolutely, actively exploiting new opportunities. AG Group from Belgium and N.V. AMEV from the Netherlands are the

if you would like to receive a copy of the first quarter report 1993 of Fortis and its two parent companies, please contact Fortis

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BB 1<sub>8</sub> 91 BCC
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#### INTERNATIONAL BONDS

## Activity in fledgling Asian Dragons begins to take off

in its infancy, with the handful of issues launched so far adding up to just over \$2bn.

But with the recent flurry of activity - five borrowers have launched issues in Asia in the last three months and more are rumoured to be lining up deals some bankars are wondering whether the fledgling market has finally taken off.

A Dragon bond is similar in structure to a Eurobond, except it is listed in Asia (usually in Hong Kong or Singapore) and is targeted at investors in the region. It is usually heavily marketed in Asia and traded in the Asian time zone so that investors there get first blte at the cherry before London wakes up

Mr Andrew Pisker, managing director of corporate finance at Lehman Brothers International, notes that one of the main aims of the borrower is to attract a wider range of investors in Asia.

... there are investors in the our investor base. It should be

ASIA'S Dragon bond market is still region who have bought Eurobonds. and if you are an issuer you should have a large investor base," he says. The seven Dragon bonds issued to

date range from the Asian Development Bank's dollar and yen deals (which provided the foundation for the market) to financial agencies (such as Nordic Investment Bank, European investment Bank and Swedish Export Credit), as well as General Electric Capital Corporation (GECC), the sole corporate name to have tapped this market.

Lehman Brothers says the issues have attracted a wide range of investors in the region, including central banks, regional and local commercial banks, non-bank financial institutions, fund managers and mutual funds.

Mr Peter Yngwe, treasurer and head of finance department at Swedish Export Credit (known in the market as SEK) says one reason for launching a \$200m Dragon bond issue earlier this month was "to tap into a market where we find old and There is a large market out there new investors, so we are broadening

there early.'

But just as important, he claims. is the implied commitment to the and construction projects. Asian region. "It suits us because we are lending to Swedish exporters and we have a lot of corporations in Sweden which do business in Asia, for example in infrastructure pro-

According to Lehman Brothers. lead manager for GECC's \$300m five-year Dragon bond in March, GECC was keen to raise funds from Asian investors to demonstrate its "commitment to the [Aslan] region", especially since it is involved in joint ventures in the

The Asian Development Bank is

keen to develop the capital markets in the region, and some capital market participants hope to see more and more big names turning to the Dragon bond market. Mr Yngwe of SEK sees a gradual

development of the Asian market, with the current triple-A rated names blazing the trail. He predicts local banks will turn

**NEW INTERNATIONAL BOND ISSUES** 

easier to be remembered if we are to the Dragon bond market because of the strong need for financing in the region related to infrastructure

> One senior investment banker in Hong Kong thinks the Dragon bond market will remain an arena for triple-A and double-A credits in the immediate future, but he predicts that "in five years' time we'll probahlv have seen a move down the credit rating spectrum"

Not all international bond market participants are so enthusiastic about the future of the Dragon bond market. Some question the point of launching issues aimed only at Asia. These detractors would prefer to see "big name" horrowers launching global bond issues, or else Considering hond issues launched in both Asia and Europe.

"There's no practical reason why we shouldn't have a sort of hybrid bond issue launched in Asia and Europe," says one syndicate head at

a Japanese house. But the more serious criticisms levelled at the recent Dragon bond issues concern their relatively poor

liquidity and the fact that in some cases, yield spreads have widened out in the period since launch. The deals issued by the Nordic

Investment Bank, European Investment Bank and SEK were all seen as aggressively priced at the time of launch. Dealers point out that Eurobond spreads over US treasury bonds have tightened very slightly in recent weeks, whereas the yield spreads on NIB, EIB and SEK Dragon bonds have inched very

slightly wider. Naturally, borrowers are keen to raise funds at the most aggressive pricing possible, and can usually borrow at a similar cost using a Dragon bond or a Eurobond.

But as one Hong Kong-hased banker put it: "Perhaps the lesson to be learned is not to price the next few deals too tightly or investors may be deterred from buying the bonds if they see that there is a risk of spreads widening out again. Otherwise there's a danger the market will crash and hurn."

Sara Webb

#### RISK AND REWARD

## Futures fund managers reassess the cash implications



coosider which futures funds to huy, they are faced with an almost infinite array of trading systems and analytical techniques for investing in the futures markets.

But the structure of futures funds means that often only a relatively small portion of the fund is actually invested in margins on futures contracts or option premiums: the remainder is invested in the money markets.

The performance of this part of tha fund has often tended to be ignored. However increasing compe-tition in the futures fund husiness has encouraged greater care to be taken in the management of the cash portion of the fund. In particular, the decline of short-term interest rates has forced fund managers to reassess their approach.

Some smaller futures fund managers, particularly in the US, are starting to farm out the management of the cash portion of their

funds. "People concentrate on the things that they are interested in," says Ms Diane Mix, of Horizon Cash Management, which is now trying to market its services to European futures funds. "[Futures fund managers] are very keen on the futures side and tend not to concentrate on the rest of the money, which consequently doesn't earn as much as it

In the US, many fund managers have simply invested the cash por-tion of funds in Treasury bills or in an interest-bearing account, according to Ms Mix.

In fact, once a large pool of casb is available, better returns can be earned from commercial paper and bank certificates of deposit.

According to one large futures fund management group, which manages its own funds' cash, it is difficult for funds with less than £5m in cash to get attractive rates, in the CP and CD markets, bid/offer spreads are uncompetitive in small sizes. Term deposits can also be unattractive, because of the penalties imposed for early redemption, which means that potentially better margins can easily be lost. Ms Mix says ber company is

WHEN investors looking to offer returns equal to or better than prevailing T-bill rates. Historically, she says, futures fund managers have achieved less than bill rates, partly because of the relatively high fees subtracted from returns.

WHILE derivatives may still be giving regulators some sieepless nights, credit rating agencies seem to be rather less perturbed.

Moody's, one of the leading US credit rating agencies, has completed a report on the credit risk implications of derivatives activities which concludes that few of the financial institutions it rates have been materially affected by their derivatives activities.

"There will be losses at individual entities from bad risk analysis, bad controls, or plain bad luck, but derivatives are not a ticking timebomb for banks and securities bouses," according to Mr Douglas Lucas, assistant vice-president of Moody's financial institutions

Moody's found that the risk-adjusted returns to derivative dealers have generally been high, and that losses, so far, have not resulted in significant credit implications.

Mr Lucas believes it is the "large numbers, cryptic nature and opaque disclosure" of the derivative markets which have fuelled fears about the risks involved. He noted that Moody's has never

changed an institution's rating solely on the basis of derivative operations "Typically, the factors arguing in

favour of an adjustment in our ratings cut across an institution's balance sheet and off-balance sheet activities," he said. Moody's divides its overview of

derivatives risk at a financial institution into four main areas - the purposes of the activity, market risk, credit risk and operating risk. Mr Lucas takes the view that derivatives are usually used by financial institutions to assume risks similar to those already taken in other ways. But it is an issue the

agency explores with both financial institutions and industrial companies: "It does have the potential to be a negative in the credit picture."

Tracy Corrigan

#### US DOLLARS Daiwa Kosho Lease Co.(a) Daiwa Kosho Lease Co.(a) Daiwa Kosho Lease Corp.(b) Jun. 1997 Jun. 1997 200 100 1.125 Dahie Europe Yameichi Inil.(Europe 100 Jun.1998 (f) Jun.2000 5.875 Republic of Italy(f); 6.017 +23 (5½%-00) Deutsche Bank London KfW International Finance Jul.2003 Jul.1998 City of Kobe 6.375 5.428 +27 (414%-03) Bank of Tokyo Cap.Mi Bank of Chinet: Daiwa Rakuda Industry()) & Jun. 1997 100 Jun.1998 9.375# Jun.1998 6 RNOES ING Bank MMC (rdf. Finance (Neths.) 100.25R 5.941 +58 (5%%-98) Mitsubishi Finance inti. Jun. 1998 Jun. 2003 S.560 +15 (5%%-96) Morgan Stanley Intl. 6.184 +75 (5%%-96) Goldman Sechs Intl. Lehman Brothers CCF(s)‡ Eli Lilly & Co. Republic of Iceland May 2003 150 125 6 Jul. 1998 99.23R Jun.2005 Jul. 1998 SASCO 3(1)‡ Banco Comercina 8.311 +300 (5%%-98) CSFB 98.75R 40 150 Homestake Mining Co.(w)§ YEN Sapporo Breweries§(c Toe Steel Co.(g)§ 40bn 30bn 10bn Jun.2000 Yamalchi Intl. (Europe) Sep.2000 Oct.1996 1.50 4.45 100 FRENCH FRANCS 7.359 +23 (81/1%-02) Banque Paribas SNCFIN Mar 2002 7.75 102,378 7.299 +23 (57771-122) DERROUB PRIDAS 6.830 +20 (814%-69) DCCF 7.229 +18 (814%-69) Societá Générale 7.065 +51½ (91/2%-68) Crédit Lyonnais 6.800 +20 (814%-69) BNP Capital Markets Jul. 2000 Caisse Nationale des Auto Eurodif 99.617R 15n 15n 25n 426.2 98.775R Feb.1998 Jul.1999 Credit Lyonnais 99.818 France Telecom White Tunnell Finance(y): STERLING 8.805 +30 (9%-08) S.Montegu/ Salomon 7.46 +25 (71/1%-98) SG Warburg Securities 7.375 +20 (71/1%-98) Samuel Montegu & Co. Marks and Sciencer Finance Dec. 1998 7.375 98,69R 7.25 89.515R Woolwich Building Society: 7.375 9.75 9.75 Jun. 1997 99,739 7,400 +23 (7½%-96) IBJ Init!/ SG Warburg 9,935 +175 (8%-03) SG Warburg Securities 99.95A 98.88A 100 100 150 Bank of Greece Jun.2003 Treasury Corp. of Victoria 99.91F 8.764 +82 (8%-03) UBS CANADIAN DOLLARS Abbey Nat. Treasury Services 150 Jul. 1998 7.5 99.794R 7.551 +57 (81/21/-98) BZW/ Wood Gundy

Borrower	Amount ft.	Maturity	Coupon	Price	Yield %	Launch spread bp	Book numer
ITALIAN LIRA							
European Investment Bank IMI Bank Ind.(Caymen)(u)	700bn 150bn	Jul.1998 Jul.1998	10.15 11.125	101.58 102.125	9.736 10.556	:	BCI/BNL/Credito Italiano IMI Bank Luxembourg
AUSTRALIAN DOLLARS							
R&I Bank Western Australia	100	Jul.2000	7.75	100.95	7.570	-	Hambros Bank
DANISH KRONER							
Finance for Danish Industry	300	Jur. 1996	7.125	101.75	6.702	•	Unibank
SWEDISH KRONA							
Swedish Export Credit	500	JL 1997	7.875	99,82R	7.929	-	Morgan Stariley Intil.
PESETAS	_						
Crédit Local de France(V)	10bn	Jul.1998	10.4	101,31	10.054	•	Banesto
SWISS FRANCS							
lapan Transcity Corp.(d)**  Tobu Railway Co.(e)**	100 200	Jun.1997 Jun.1997	1.125	100 100	_ :		Credit Suisse Swiss Bank Corp.
Shinko Bactric Inds. 11+4	160	Jun. 1987	0.875	100		-	Cradit Suisse
Japan Fin. Corp. Mun. Ents.	150	Jul 2003	4.75	101	4.623	-	Swisa Bank Corp.
Union Industrielle de Credit	100	Jul. 1999 Jul. 1998	5,125	101.75	4.783	•	Courts & Co. SG Warburn Securities
ASS International Finance Dainichtealka Colourit*®	100	Jun. 1997	0.875	100	•		Credit Suisse
Kiteno Construction Corp.(x)*	150	Jun,1997	0.875	100	-		UBS
LIXEMBOURG FRANCS							
CFCMB(h)	1bn	Jul.2001	7.375	101.35	7.148	•	BCEE
San Paolo, London Branch(m) CSPB Finance(n)	1bn 1bn	JUL 2001	7.625 7.75	102.5	7.203 7.416		Cregem Intl., Bank Kredfetbank Intl.Group
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Bonds unconditionally and irrevocably guaranteed by BROWN SHIPLEY & Co. LTD. Notice is hereby given that, pursuant to article 6 of the Terms and Conditions of the Bonds, the issuer has elected to redeem on 3rd August, 1993 at 100.25% of their nominal

**BROWN SHIPLEY FINANCE (HOLLAND) B.V.** ECU 30,000,000 9 1/8% 1986 - 1994

amount all the outstanding Bonds. The redemption price of the Bonds, together with interest at 9.125% for the period from 7th January 1993 until the redemption date, will be payable on or after the Redemption Dale upon presentation and surrender of the Bonds,

of the Paying Agents. On and after the Redemption Date, interest on the Bonds will cease to accrue, and the coupon maturing after the Redemption Date will be void.

together with all unmatured coupons attached, at the offices

BANQUE GÉNÉRALE DU LUXEMBOURG erdelling in the same of the s

Lead Manager, Fiscal and Principal Paying Agent

A/S JYSKE BANK USD 100,000,000 Subordinated Floating Rate Notes due 1995

Notice is hereby given that, pursuant to the paragraph Terms and Conditions of the Notes", the issuer has elected to redeem at par on July 19, 1993 all of the

The Redemption Price of the Notes will be payable on or after the Redemption Data upon presentation and aurrender of the Notes, together with all unmatured coupons attached, at the offices of the Paying Agents. On and after the Redemption Date, interest on the Notes will cease to accrue, and all coupons maturing after the Redemption Date will be void.

BANQUE GÉNÉRALE DU LUXEMBOURG

Fiscal Agent

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#### ITOCHU CORPORATION

To the Holders of the Bearer Depositary Receipts Notice is hereby given that the 69th General Meeting of Shareholders of tochn Corporation will be held in 10.00 a.m. on 29th June, 1993, of the Head Office of the company located at 1-3 Kynisru-Machi, 4-Chome, Chno-Kn, Osaka, Japan, Notice of convocations of the meeting is available at the Cashier's Counter, Hambros Bank Ltd., 41 Tower Hill, London EC3N 4HA, U.K. and Bunque Internationale & Luxembourg S.A., 2 Boulevard Royal, Luxembourg.

**Business Operations and Results for 1992/1993** Fiscal Year (ended 31st March, 1993)

Japan's economy during the period cantinued to cantract, bindered by stagnant final demand. The year featured a low level of personal consumption, declining capital expenditures, a worsening employment cavironment, significant deterioration in corporate profitability and an expansion in the current balance of payments surplus. Given these factors, the Bank of Japan lowered the Official Discount Rate three times, finally reducing the Benchmark Rate on February 4th of this year to 2.5 per cent, a level not seen since the strong Yen-induced recession between 1985 and 1987. In addition, in August of 1992 the Government announced "integrated economic countermeasures" recession between 1905 and 1907. In audition, in engage of 1972 are Government announced "integrated economic countermeasures" which included total additional expenditures of 10.7 trillion Yen, and worked to pass the fiscal 1993 budget in record time. Moreover, the Yen-Dollar exchange rate reached a new historical high, appreciating from 133 Yen per Oollar at the beginning of the year to be from 133 Yen per Dollar at the beginning of the year to below 120 Yen per Dollar. The pace of the Yen's appreciation accelerated from the latter half of Pebruary of this year as new highs were renewed. Stock prices Buctuated widely, falling from the 18,000 Yen level on the Nikkei Index to the 14,000 Yen level la August of last year, only to subsequently recover to the 18,000 Yen level.

Overseas, the U.S. economic recovery continued although some overseas, to U.S. economic recovery continued annuage some showing was evident. In Burope, the recession in Germany lingered and emphysizent conditions deteriorated. The mild first-half recovery seen in the French economy began in falter during the second half, and the United Kingdom's economy remained stagnant because of weak domestic demand. On the other hand, the NIES economies in Asia generally continued to expand invourably, although the pace of on showed evidence of waning in the second half. The Asean repondies continued to record high growth supported by exports within the Asian area and an inflow of direct overseas investments. In addition, while China's economy grew strongly driven by rapid expansion in domestic demand, there was increasing concern regarding mounting inflationary pressures as reflected in a steady

Given this business environment, Itocha strove to restructure its operations in an effort to reshapa the organisation into a "globally integrated company" with a view toward the 21st Century. New areas and new businesses were aggressively promoted, and sound progress was made in strengthening our operating foundation.

Specifically, in preparation for the new multi-medin era, we joined Toshiba Corp, in investing in Time Warner Entertainment Company L.P. in a tie-up with U.S.-based Time Warner luc., the world's largest movie and publishing company. We also entered the visual media and information field in establishing Time Warner Entertainment Japan Co., Ltd. together with our partners. The company is making steady progress in long-term strategic investments in China, where economic development is progressing rapidly. We are participating in a number of cooperative ventures with major Chinese and foreign firms in the areas of sheet glass, corrugated cardboard and truck production. In addition, men's conts, women's wear and ski wear sewing companies have been established to expand product imports.

In the natural resource development field, stable supply sources of energy for Japan are being emphasised. Besides participating in the Vietnam Sea Oil Field Development Project, we have nequired an interest in the U.K. North Sea and in the Indonesia Sumatra Sea Oil

At the same time, we are trying to help resolve global environmental issues, working with Japan's major paper companies on reforestation projects in Brazil and Chile, and embarking on new reforestation projects in New Zealand and Australia

Total transactions for the year declined by 7.4 per cent (1,482.5 billion Yen) to 18,529.3 billion Yen. Exports were firm, driven by favourable increases in plant exports to Asia. However, domestic transactions and onports decreased owing to a stagnant domestic economy. Moreover, a large drop was seen in overseas transactions as trading volume in precious metals fell strarply.

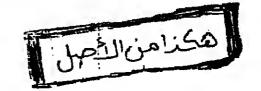
Gross trading profit fell 2.7 per cent (by 6.3 billion Yen) to 233.3 billion Yen owing to the stagmant business conditions that led to the decline in total transactions. This notwithstanding, ordinary profits grew 10.0 per cent (4.5 billion Yen) for the year to 49.8 billion Yen as falling interest rates boosted interest and dividend receipts, resulting in an onproved non-operating balance. However, extraordinary losses were incurred as the result of the reorganisation and disposal of subsidiaries, and losses from the sale of marketable securities. Consequently, set income declined 7.1 per cent (700 million Yen) to 10.1 billion Yen.

Annual Report for the 1992/1993 Fiscal Year will be available at Hambros Bank Ltd. and Banque Internationale & Luxembourg S.A. by the end of July, 1993.

13/19/07

**WORLD STOCK MARKETS** 

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	Par Accom see City Francis/ Unit 1 part Managers	Empaties 61 290 5005 Desimp OFT 279 6202 Capability Francis American & Gen	Zien Preference 95   32.46 32.61 d 34.62   6.06 kinst Family Investment Magnet Ltd (1000)F 16 West Street, Brighton Ball 28E	acide inc. 55, 445.74 147.43 137.44 226 4001 acide Startings 55, 25.00 147.43 137.44 2.26 4001 acide Startings 55, 25.00 147.77 17.18 0.27 487 4 50000 55, 177.48 127.48 136.77 0.37 487 5 50000 55, 177.48 127.48 136.70 0.37 487	CVII - COMPANIE MESSE US-	Account (Intel®	Common   Continue	anten Gérovey. 5-5 d 190 83.344 80,19 (2.00 *** many ind 5-5; 119.8 115.8 123.1 - *** aropem Gent 5-7; 161.8 151.8 161.2 1.32 *** aro bat 8 Gent 5-7; 68.24 68.24 70.46 2.41 au aro Stale Do's 5-7; 39.89 34.89 42.22 1.03 ***
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	AEIne House, 2–12 Peniamelle Road, Lancon, NT 606 Dusing: 8277 690360 Advice 071–837,6494 European Growth	James Capel Unit Tet Megt Ltd (1400)F 7 Describir Square, London, EC24 410	Ger & Fold Int	S Recome Pand Bull #45 193994 9.5994 10009 5.76 - Segment Rand Earl #45 193994 9.5994 18000 5.75 - 5.65 1-Bend Bull #.45 193994 9.5994 10000 1.50 - G OS T-Bend Bull #.45 193999 9.5994 10000 1.50 -	European I rost	Section   Sect	Un Grown	### ### ##############################
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130	Figur Yard	The FUUSE FUND 44   186.0 106.0 111.0 2.74 453 186.0 111.0 186.0 111.0 2.74 453 186.0 186.	County Femide   544   30.54   40.28   42.97   0.00   0.54   14	S IS Index 4 44 S1670 20.4251 21.372 1.50 B S Card 4 2 S1676 14.5046 14.576 5.10 B S IS Beer 4 45 S1776 12.776 13.781 4.40 S S Invented Beer 4 45 S1767 13.091 15.775 4.40 S	us inc & Gooth Jun 190 342.7 342.7 348.1 3.44 4998 Us income Jun 10	UK Growth Acc61 69.76 70.09 d 75.50 2.39 leds? UK Income Acc64 91.27 91.55 67.71 6.45 4856 Do lecome64, 70.39 70.84 75.38 0 .45 4856 Midland Unit Trusts Ltd (12009F	Phillips & Drew Unit Managers Ltd (1400)?	' Calt - Rel Income retrotated Chroder Unit Trusis Ltd (1400)F 3 Catter Law, Lundon FCTV RAS
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	Regions Tensits         512         40.87         68.87         50.10         2.19         60.89           High Income         352         177.2         277.2         403.2         4.06         60.89           Eight Income         52         127.2         272.2         252.2         280.8         482         400.0         60.00           Food Scentilies         352         13.2         31.3         33.0         33.0         6.33         40.0         400.0	9. Growth 1st9 25.07 20 266d 29.87 1.86 https://discours/science/scienc	http://doi.org/10.1001	por 1965   1421.2	Lioydis Bik Dellt Tat Algra Liti (1000)F PD flox 63, Chathan, Kyra ME4-478 Dealing 0634 834313	GR. 6. Flord	Principal 1st54   11825   12059   2029   2.32   6829   Profific Unit Test Mingris Ltd (1100)F   Profitors No. 22 Micropole, ECAN BLD   Dealing, 0000 282443	Action June 3 5 4 111.27 172.85 179.37 0.00 46972 M. Enterprise
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	Wrunde Acard Inc _512 40,01 48,01 42,77 1,10 4009 Specialist Press Acard Vator _512 482,2 464,584 496.5 2,18 4000 Corr & ES _512 42,62 42,62 45,56 4,76 4000	Cazemone Unit Treat Minguet Ltd (1600)F 3 Cupituli Arene, London ECS1 78H 07 -604 0708 Cazemone Portlett - 6 71.31 71.40 78.32 5.06 legs F	11 Sang Singer, Louzing EC2 M200 <sup>9</sup> 11 Sang Singer, Louzing EC2 M200 <sup>9</sup> 120-1, Bisharand	Wincred High Inter** 12: 115.99 117.37 7.57 4076 mpts Ber Errer Cos**15, 182.40 191.604 196.60 2.84 4875 Account	Do (Accum) 5 (05.30 105.30 178.00 0.31 089.0 0.51 089.0 0.51 089.00 517.0 0.54 0772 0.	Month American 8 70.97 70.81 75.12 0.56 4805  Michael Escaping Paralles Unit Trait 8 1.95 6809  Shifting Control 1.95 6809  Shifting Control 1.95 6809  Shifting Control 1.95 6809	Edite Income514   140.3   140.3   140.3   140.4   14144	August Start V
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	1 (Grg St, Meachanter MGO SAN) 0900 529358   Growth 55 126,00 127,704 135.99   1.30   4982	UK General Tet	K Growth 5 93.59 93.97 100.50 0.37 4003 Ad	enshiro Generati Fund Migra Lid (1000)F uria, 5 Roywigh Rd, Mutton, Brontacod, Essan purico 8277 227300 Doctor 0277 560300	N Am Sra Cuo 8 Rec. 8   134.50   137.10   145.90   0.01   146.50   0.02   0.02   0.	Millesetus) Frand Managagaent LDG (1000)F 1 While Harl Yard, Lumba Brilga, SET 071—607 5068 International52   \$10.52 10.71   1.38] =   6284	Hecomery 54 65.71 66.95d 71.23 2.74 0707 F Account links 54 66.95 75.26 74.74 2.74 6707 F Special Sta 54 92.95 94.85d 100.5 2.17 4706 U Decom Union 54 94.65 100.2 108.6 2.17 4708 U	BODY   5   16213 1648.57   151.77   2.90   1274   2.50   1274   163.00   163.14   2.90   1274   163.00   163.14   163.00   163.14   163.00   163.14   163.00   163.15
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Provident Life Assoc Life Scottish Amicable Sr	AL RECORD COMMANDES	Bid Siter Yard City- boll Caso Std Oller York City- Price Price Grass Line Chego Price Price Gri Libra	Bid Other Yalid Clty- Bid Other Yalid Clty- Prices Prices Canas Libra Price Prices Great Libra
Bull Ramps Pendless    Bull Ramps   Bull R	## Special Michigan   198.4   198.3   48229   48220   AVA Equility & Law Intil Life Assoc Co   19.0	2 Distance Generate Fight   \$1,000   \$185   \$4495   \$170 to 255, 8 Fand Fort Generate G   \$143   \$185   \$450   \$185   \$1840   \$118   \$4485   \$170 to 255, 8 Fand Fort Generate G   \$1,000   \$1,430   \$255   \$187   \$185   \$195   \$1,000   \$1,430   \$255   \$187   \$1,000   \$1,430   \$255   \$187   \$1,000   \$1,430   \$255   \$187   \$1,000   \$1,430   \$255   \$187   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$255   \$1,000   \$1,430   \$1,000   \$1,43	### International Management Lid enter the factor by 1.20   1.20
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Libyds Bank Trast Cd (Ct) Mingrs  Upgared work in Peri 1 (2 702 2 2874   0.90   ~	Developing Gerth Stock   S- 9.91   GZ/S   Planetk Fd   S15.49   S15.49   For Gast   S- 11.05   S-	18	1000 Growth Fund Limited   1000 Growth Fund Li	1926/71   - 40481   Emission National   2277/41   - 5301.02   4748   Emission Fund Managers Limited   4788   478
Perpetual UT Mingrs (Jersey) Ltd Othstore Inc Refly PL	Touche Resmant (Sperman) Ltd (u)  Permand Page 5, 54 Poter 70, German)  10 Headache Senting Fund  10 Headache Senting Fund	ARRIPOC Capital   ARRIPOC Capital   In Introduction   S18,49   17,41   4699   67 / 69     In Introduction   S18,49   17,41   4699   67 / 69     In Introduction   S18,49   17,41   4699   67 / 69     Introduction   S18,49   52,37   4677   67 / 69     Introduction   S18,49   57,49   47,49   67 / 69     Introduction   S18,49   57,49   47,49   67 / 69     Introduction   S18,49   57,49   47,49   67 / 69     Introduction   S18,49   57,49     Introduction   S18,49     Introd	Section   Sect	Closed inc. June 10
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\$30,000-\$20,000-149,000 150 150 \$5,000-179,500 150

#### CURRENCIES, MONEY AND CAPITAL MARKETS

### FOREIGN EXCHANGE AND MONEY MARKETS

## Test for dollar

FOREIGN exchange dealers will focus this week on data which will test whether the US is experiencing inflation at the current stage of the recovery, urites James Blitz.

In recent weeks there has been a growing belief that inflation is set to rise in the US, a phenomenon which would force the Federal Reserve to raise short term interest rates.

#### UK clearing hank base lending rate 6 per cent from January 28, 1993

Last Friday, the May producer prices figure US showed that the rate of inflation was far smaller than had been anticipated, with the ex-food and energy figure up 0.2 per cent on the month.

But the market will wait for the consumer price inflation figure for May, due out tomorrow, before giving its final verdict on US interest rate moves. The Michigan consumer confidence survey for June, which is due on Friday, will also show whether

**£ IN NEW YORK** 

Close

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Close

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STERLING INDEX

**CURRENCY MOVEMENTS** 

79.3 63.8 98.4 113.6 114.9 117.3 123.0 111.8 118.6 109.3 82.5 178.5

109-21 169-24 108-21 108-20 108-18 108-21 108-00 107-18 108-01 107-18 107-18 107-21 107-05 108-78 108-20 108-22 108-12 108-20 108-25 108-25 108-25 108-26 108-26 108-20 108-00 10

1.5180 1.5084 1.5030

High Low Prev. 0.6913 0.6830 0.6837 0.6805 0.6796 0.6807 0.6880 0.6781 0.6789

pm \_\_\_\_

CHICAGO

Strike Price 1.450 7.475 1.500 1.525 1.550 1.575 1.600

U.S. TREASURY BONDS (CRT) 8%, \$100,000 32nds of 199%

the	PPĮ	figure	was	2	blip.
	_		_	_	

After the onslaught that it has received in recent days, the near term outlook for the dollar against the yen will be affected by two sets of data

Thursday brings the April trade balance for the US which is set to show another deficit. DKB International predicts that this will be in the order of \$8.5bn, following a deficit of \$10.2bn for March.

Even more important will be the Japanese trade balance for May. The yen rose strongly on the back of the April figure of \$10.2bn, because the US is so keen to see Tokyo's trads surplus reduced. A strong surplus this time might have a similar effect, pushing the yen towards the Y100 level against the dollar.

In Germany, the week's key data will be the M3 money supply figure for May, which is expected to show a slight dip. But, the Bundesbank is unlikely to ease monetary policy at its council meeting on Thursday.

OTHER CURRENCIES

Am 11 \$\begin{align\*} \begin{align\*} \text{Amponion } \ \text{1.5285} \ \text{1.5280} \ \text{0.5990} \ \text{0.9990} \ \text{

**CURRENCY RATES** 

0.935993 1.41597 1.81095 809 47.8474 8.846468 N.87 2.80128 7.79845 2110.36 9.80278 177.576 10.3274 2.09274 80A

Close High Low Pres, 0.9423 0.9435 0.9351 0.9421 0.9426 0.9448 0.9385 0.9426 0.9436 0.9442 0.9405 0.9436

Closs Figh Low Prov. 0.6147 0.6200 0.6122 0.6134 0.6080 0.6120 0.6056 0.6088 0.6082 0.6070 0.6009 0.6021

High 96,69 96,49 96,05 95,83 95,60 95,28 94,87 94,78

High Low Prev. 449.30 448.25 446.45 450.00 448.90 447.20 450.60 448.00 448.75 451.90 449.80 448.90

Aug 1.03 1.72 2.84 3.93 5.53 7.38 9.40

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Y12.5m & per Y100

Jun Sep Dec Mer Jun Sep Oec Mer

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7.35 5.68 4.25 3.09 2.24 1.54 1.02

0.42 0.93 7.75 2.93 4.59 6.55 8.72

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POU	AND SPOT	- FORWAR	ND AGAIN	ST 7	THE POUN	iD
Jun 11	Day's tareed	Close	Que month	pa.	Titrae months	75 P.B.
France	50.85 - 51.55 9.4460 - 9.5780 1.0130 - 9.5780 2.4725 - 2.4985 234.40 - 237.85 189.30 - 192.20 2255.75 - 2292.20 10.4520 - 10.5490 8.3175 - 9.4580 10.8639 - 11.1220	1,5250 - 1,5250 1,9525 - 1,9535 1,7700 - 2,7500 50,955 - 57,05 0,4525 - 9,4625 1,0140 - 1,9750 2,4725 - 2,4775 2,7500 - 2,35,00 189,45 - 1,89,75 10,4700 - 10,4800 8,1175 - 8,3275 10,4700 - 10,4800 8,1175 - 8,3275	0.38-0.34cpm 0.27-0.19cpm 1 <sub>2</sub> -1 <sub>2</sub> cots 3-7zdb 1 <sub>2</sub> -2-3 <sub>1</sub> -cots 1 <sub>3</sub> -1 <sub>4</sub> -1 <sub>5</sub> pids 137-148cds 88-90cds 7-8inds 1 <sub>3</sub> -1 <sub>2</sub> -1 <sub>3</sub> -1 <sub>4</sub> -1 <sub>3</sub>	2.76 1.41 -1.36 -2.78 -1.24 -2.12 -7.58 -2.12 -7.58 -1	1.02-0.99pm 0.80-0.40pm 72-1.40s 72-1.40s 12-1.20s 1-1.12ds 24-27ds 24-27ds 13-34ds 27-34ds 27-34ds 27-34ds 27-34ds	2101211754012
Austrie	191.25 - 163.40 17.37 - 17.80 2.2050 - 2.2370 1.2650 - 1.2516	161.25 - 162.25 17.41 - 17.44 2.2050 - 2.2150 1.2665 - 1.2575	1-3-1-1-2-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-	3점 -1작 834 -194	1 <sup>1</sup> g-1pm 5 <sup>1</sup> g-5 <sup>1</sup> gda 1 <sub>2</sub> -1 <sub>8</sub> pm 0.46-0.52da	-1. 0. -1.

DOL	DOLLAR SPOT - FORWARD AGAINST THE DOLLAR										
Jun 11	Day's Oproad	Close	One month	P.E.	Three storths	% p.a.					
M†	1.5210 - 1.5390 1.4925 - 1.5070 1.2780 - 1.2835 1.8135 - 1.6310 31.30 - 33.55 0.1860 - 6.2625 1.8105 - 154.55 154.00 - 1422.00 6.8540 - 6.9005 5.4425 - 5.4920 7.1795 - 7.2375 166.55 - 100.65	1.8580 - 1.8580 1.8580 - 1.8580 1.8581 - 1.8585 1.8581 - 1.8585 38.40 - 31.50 0.1975 - 8.2025 184.10 - 184.20 184.40 - 184.20 184.80 - 184.20	91-95cda 8.40-9.00treds 1.90-2.30creds 1.97-2.07cds 2.95-3.35creds 0.01de-paryon	としているともできるというない。 2014年の日本の日本の日本の日本の日本の日本の日本の日本の日本の日本の日本の日本の日本の	1.02-0.90pm 1.42-1.37pm 0.47-0.53pm 1.59-1.94ds 29.50-33.50ds 7.40-8.00ds 1.75-1.77dm 283-385ds 250-250ds 250-250ds 250-5.570ds 5.50-5.70ds 5.50-5.70ds 0.05-0.04pm	284 3.71 -1.66 -3.57 -4.97 -4.93 -10.13 -8.20 -7.14 -4.70 -4.71 -4.80					
witzerland .	11.4200 - 11.4900 1.4450 - 1.4650 1.1975 - 1.2070	11,4200 - 11,4250 1,4480 - 1,4500 1,2055 - 1,2065	3.50-3.80grods 0.23-0.27cda 0.48-0.45cpm	-3.83 -2.07 4.68	9.89-10.85ds 0.88-0.70da 1.27-1.24pm	-1.58 -1.88 4.16					

EXCHANGE CROSS RATES												
June 11	£	5	D56	Yes	F Ft.	8 Fr.	N FL	Lina	C\$	6 Pr.	Pta.	Ecu
3	1	1.526	2.475	161.5	8.323	2.210	2.775	2256.	1.953	51.00	189.6	1.26
3	0.665	2	1.522	106.0	5.454	1.448	1.818	1478	1.290	33.42	124.2	0.83
VER	£180	0.617 9.431	15.30	65.37 1000.	3.363	0.893	1.121	911.5 13943	0.789 12.07	30.61	76.61 1172	7.83
FFL	1.201	1.833	2.974	194.4	10.	2.855	3.334	2711	2347	61.28	227.8	1.52
S Pr.	0.452	0.500	1.120	73.21	3.768	1	1,258	1021	0.884	23.06	85,79	0.57
HR.	0.380	0.550	0.892	58.31	2.999	0.796	1	613.0	0.704	16.38	68.32	0.45
	0.443	0.676	1.097	71.72	3.689	0.960	1.230	1000.	0.866	22.61	84.04	0.58
C S	0.512	0.781	1.267	82.85	4,262	1.132	1.421	1155	1	26.11	97.00	0.54
B FL	1.961	2.992	4.853	317.3	16.32	4.333	5.441	4424	3.629	100.	371.6	2.48
Pta	0.527 0.789	1.204	1.305	85.34 127.7	4,390 6,569	1.166 1,744	1.464 2.190	1190 1781	1.030	26.90 40.25	100. 149.6	0.66
Yen per	1.000	Franch (	F 000	10-1-2	per 10	Or Bolo	ion Fe	ner 100	Pecate	Per 10	ß.	

Jun 11	Short	7 Days notice	Osa Month	Three Months	Six Months	Com
Sterling US Dollar Can. Dollar Can. Dollar Can. Dollar Builder Builder Builder Franc. D-Marin. Franc. Franc. Belgien Franc. Fran	6 - 54 5 - 274 4 - 774 5 - 55 7 - 775 12 - 10 7 - 10 7 - 10 8 - 22 8 - 22 13 - 23 13 - 13 1	54 54 77 55 57 77 12 10 10 10 10 10 10 10 10 10 10 10 10 10	5% 51% 34% 34% 47% 683 56% 57% 10% 10 10% 10 10% 34 11% 11% 11% 11% 11% 13%	\$26 552 562 563 564 564 565 564 564 564 565 564 564 565 564 565 564 565 565	512 513 314 514 514 514 514 514 514 51	511 - 51 37 - 34 57 - 34 67 - 61 61 - 61 61 - 61 61 - 62 74 - 74 74 - 74 105 - 104 132 - 124
Long term Eurodolland: 513-52, per eant nomi	had yeers 412-	On per cost; the	ree years 5-4% r US Dollar and	per cent; four y Japanese Yers	east 5 <sup>3</sup> 8-5 <sup>3</sup> 4 per others, two days'	cost, the years

FT L	ONDON INTE	RBANK FI	XING
1.00 a.m. June 11)	3 months US deliars	6 months	U\$ Doflary
bld 314	cafter 3 a	bld 312	offer 3/2

NEW YORK			Treasury	Books and B	onds		
Aprii Prime rate Broker look rate Fed.funds Fed.funds at interven	213	Two month Three month	h	3.13 Free 3.12 Sev 3.28 10-	3 Five year		
June 11 Overnight		Orie Month	Two Months	Three Months	Six Months	Lombard Intervention	
Frankfurt	7.70-7.86 73-73- 51-53- 7.00-7.72 7011-11 71-73-74- 64-7	7.70-7.80 7 <sup>1</sup> 2-7 <sup>2</sup> 3 5.2-5 <sup>2</sup> 6.98-7.03 10 <sup>3</sup> 8-10.2 7-7 <sup>2</sup> 8 8 <sup>2</sup> 8-7	7.55-7.70 - - 6%-7	7.50-7.85 7.26-7.38 5-5 <sup>1</sup> 8 6.80-6.88 10 <sup>3</sup> 8-10 <sup>1</sup> 2 7-7 <sup>1</sup> 8 678-7	7.20-7.35 67 <sub>1</sub> -7	8.50 7.50	

Jan 11	Oversight	7 days notice	One Month	Three Months	Sik Months	Qne Year
berbank Offer	612	5%	STOS:	55555	577 577 572	574 574 573
renchank Old	6	512	558	513	54	53
Stacking COst	1 : 1	57	544	514	512	53
ocal Authority Daps	, 8	54	512	512	5(2	573
ocal Authority Bonds	1 = 1	55	-	•	- 1	-
Necount Mikt Dops	8	25	-	- 1	· - I	-
Company Deposits	1 - 1	- 1	=		.=-	
ingace House Deposits	1 - !	- 1	54	63.5	593	583
reasury BPCs (Buy)	1 : 1	-	53	512 513	575 512 513	-
ank Bills (Buy)	1	- :	541	544	533	-
he Trade Bills (Buy)	- 1	- 1	_	-7-	3.28 4.6 4.6 7.3	
otar CDs	1 - 1	- 1	3.05	3,15	3.28	3.56
OR Linked Dep. Offer	1 - 1	- 1	412	45	410	416
DR Linked Dec. 84d	1 - 1	- 1	412 412 80 77a	45g 412 74 74	446	3.58 412 424 7 64
CU Linked Dec. Offer	1	-	8	7.2	73	7

**LONDON MONEY RATES** 

5ep 1.88 2.48 3.48 4.81 6.38 8.11 10,07

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

FT-ACTUARIES WORLD INDICES

NATIONAL AND			FR	UL YACE	NE 11 79	93				THURSD	AY JUNE	10 1983		DOL	LAR IND	EX_
REGIONAL MARKETS Figures in perentheses show number of lines of stock	US Dollar Index	% chg (5) since 31/12/92	Pound Sterling Index	Yen index	DM Index	Local Currency Index	Local % chg from 31/12/82	Gross Div. Yield	US Dollar Index	Pound Starting Index	Yen Index	DM Index	Local Currency Index	1983 High	1993 Low	(abbury)
Australia (68)	134.04	+7.1	130.27	89.86	113.28	131.10	+8.3	3.82 1.57	133.27 145.43	130.04 141.90	89.47 97.63	113.22 123.55	131.01 123.49	144.19 150.96	117.39 131.16	149.90
Austria (18)	148.15	+5.7	143.98	99.32	125.20	124.96	+6.4 +8.0	4.80	148.47	139.99	96.31	121.88	119.06	156.78	131.19	143.66
Belgium (42)	144.40	+8.4	140.34	96.79	122.03	119.12 117.62	+10.5	2.86	127.43	124.33	BS.54	108.24	118.11	129.97	111,41	128.44
Canada (106)	126.90	+9.7	123.33	85.07	107.24 183.54	183.14	+15.3	1.23	214.62	209.40	144.08	182.32	182.29	225.84	185.11	238.4
Denmark (33)	217.16	+16.7	211.07	145.59	76.95	104.15	+36.3	1.17	89.56	87.38	60.12	76.06	103.94	100.92	65.50	76.71
Finland (23)	91.06	+30.8	88.50	61.05	132.78	134.45	+5.4	3.34	155.41	151.63	104.32	132.01	133.96	167.36	142,72	161.46
France (97)	157.13	+8.8	152.71	105.33	95.97	95.87	+9.4	2.21	112.32	109.60	75.41	95.42	95,42	117.10	101.59	124.73
Germany (62)	113.45	+9.0	110.26	78.06 198.56	250.33	293.88	+33.5	3.21	295.73	288.54	198.52	251.24	293.43	301.51	218.82	245.16
Hong Kong (55)	296.20	+33.7	287.87	109.99	138.66	153.77	+30.4	3.51	163.87	159.89	110.01	139.21	154.71	170.40	129.28	157.80
treland (15)	184.08	+20.8	159.46	46.15	58.18	76.05	+26.9	2.23	68.64	66,98	46.08	58.31	76.39	72,82	53.76	70.24
Italy (73)	68.85	+25.5	68.91 150.14	103.56	130.57	103.56	+24.9	0.60	153.48	149.75	103.03	130.40	103.03	154.49	100.75	102.77
Japan (470)	154.49	+47.1	337.37	232.70	293.36	343.66	+30.5	1.96	344,74	336.36	231,41	292.85	339.52	347.14	251.66	238.66
Molecule (RO)	347.14	+32.8	1401.76	966.88	1218.91	4929.61	-12.3	1.37	1462.29	1426.77	981.65	1242.24		1725.61	1410.30	1587.51
Mexico (18)	442.33	-12.5		113.72	143.37	140.81	+12.0	3.91	168.25	164.18	112.95	142.93	140.68	172.75	150.39	164.39
Netherland (24)	169.85	+12.1	164.88	32.86	41.42	47.93	+8.2	4.62	48.57	47.39	32.51	41.26	47.99	49.82	40.56	46.62
New Zeeland (13)	49.01	+14.3	47.63 148.33	102.31	128.98	142.26	+10.0	1.85	150.98	147.32	101.36	128.26	141.61	166.21	137.71	164.69 228.15
Norway (22)	152.62	+10.8	251.40	173.41	218.60	191.86	+18.9	1.60	259.54	253.24	174.23	220.48	192.41	282.72	207.04	243.24
Singapore (38)	258.67	+21.2		131.04	165.20	197.19	+25.5	2.55	194,25	189.53	130.40	165.01	196.05	201.01	144,72	
South Africa (60)	195.49	+32.0	189.99	87.16	109.87	122.58	+21.1	4.87	128.61	125.49	86.34	109.26	122_18	132.82	115.23	154.17
Spain (46)	130.02	+11.5	126.36		151.13	190.67	+10.0	1.77	179.30	173.97	119.70	151.47	192.09	184.06	149.70	193.91
Sweden (36)	178.83	+8,0	173.80	119.88	109.04	115.94	+12.9	1.88	127,37	124.28	85.51	108.22	115.92	129.36	108.91	108.21
Switzerland (53)	129.01	+14.2	125,38	86.49	150.02	172.54	+2.2	4.03	178.74	172.45	119.64	150.13	172.45	181.99	162.00	193.57
Letter Consider (210)	177.54	+3.0	172.54	119.00	154.35	182.64	+2.5	2.80	181.92	177.50	122,13	154.55	181.92	186.27	175.38	166.89
United Kingdom (219)	182.64	+2.5	177.50	122,44	154.05	102.04					77 CE	100 50	404.00	149.02	133.92	153.86
USA (519)			142.43	98.24	123.86	134.38	+7.6	3.31	145.47	141.93	97.65	123.58	134.22		142.13	179.88
Europe (763)	146.55	+7.8		111.46	140,51	157.28	+13.1	1.59	165.11	161.10	110.84	140.26	157.73	171.77		109.14
Nordic (114)	166.26	+121	161.59	105.78	133.35	110.14	+24.6	1.07	156,81	153.00	105.27	133.21	109.80	157.79	105.89 117.28	127.24
Pacific Basin (713)	157.79	+43.8	153,35	102.80	129.35	120.69	+17.2	1.95	152.04	148.35	102.06	129.15	120.28	153.08		164.47
Euro-Pacific (1476)	153.06	+27.2	148.76	120.12	151.44	178.21	+2.9	2.81	178.52	174.19	119.86	151.69	177.57	182.38	171.51	130.08
North America (627)	179.17	+2.8	174.18	A5.30	107.53	112.79	+11.8	2.83	126,02	122.96	84.62	107.08	112.61	128.65	112.51	171.82
Europe Ex. UK (544)	127.22	+11.2	123.64		181.25	176.00	+22.0	3.13	190.12	185.50	127.65	161.52	175.57	194.08	152,70	129.51
Pacific Ex. Japan (243)	190.79	+22.5	185.42	127.92	129.51	122.66	+19.8	1.98	152.41	148.71	102.32	129.48	122.28	153.35	118.51	
World Ex. US (1662)	153.36	+28.3	149.05	102.82	135.78	138.06	+11.8	2.11	159.76	155.89	107.26	135.74	137.54	161.34	134.22	138.19 140.48
	160.65	+17.7	156.13	107.70	138.95	140.76	+10.7	2.29	161,17	157.25	108.20	136.93	140.28	162.74	137,29	
World Ex. UK (1962)	162.04	+18.0	157.48	108.63	142.19	161.88	+5.5	2.98	167,42	183.35	112.40	142.25	161.45	170.05	157.47	162.67
World Ex. So. At. (2121) World Ex. Japan (1711)	168.23	+5.7	163.49	112.78	107.04	141 24	±10.8	2.29	181.28	157.37	108.28	187.02	140.78	162.96	137.32	141.13
	162,15	+16.2	157,59	108.70	137.04	141.24	, 90.791 (	Dound !		and 94.84	(Local):	Nordic: C	ec 30. 19	388 = 139	.65 (US	\$ Index).

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The World Index (2181) 162.15 +16.2 157.59 108.70 137.04 141.24 +10.6 225 101.25
the world make (21017 146.027 #15 \$ Index), 90.791 (Pound Starting) and 94.54 (Local), reduce the Su, 156.04 (156.04 )
2
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Bees values: Dec 31, 1985 = 100; relations of 123.22 (LOCA).  114.45 (Pound Starling) and 123.22 (LOCA).  114.
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the week anding 11/893 Deserted
Constituent changes our and the Cont. & P.C.) (Switzenero).
Constituent changes during the week ending 111 and 111 (Reg. & P.C.) (Switzerland).  14/6/92: Addition: Evia (Br.). Deletions: Evia (Reg. & P.C.) (Switzerland).
I-A-S-RST WOODSTILL EARLY (CA.). Property of

MONEY MARKET FUNDS					
	MONE	Y MAF	KET	FUN	IDS

#### **Money Market** Trust Funds

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

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6 & C Merchant Bank ... 13 Bank of Beroda ................... 6 Banco Bibeo Vizzaya.... 6

Bank of Cyprus .... Bank of Ireland ....

Bank of Scotland ....

CL Bank Nederland ......6

FT-SE 700
FT-SE Mid 250
FT-SE-A 350
FT-A All-Share
FT-SE Eurotrack 100
FT-SE Eurotrack 200
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FT Gold Mines

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**BASE LENDING RATES** 

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●Robert Fleming & Co ....6 

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#### **Money Market Bank Accounts**

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ngs' draft propossie. R stimples. W Pro Forme merket. pm Price at a Beark of Ireland High Interest Cheque Acc 35-40 High St, Sough St, 1 15t. 278,000 - 3. 4.55 2.189 4.716 Or 72,000-03/99 4.00 3.00 4.001 Or 25,000-4,0500 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 251 | 25 change - 4.07 Otr Current Account \$25,000+ 4,00 | 4,00 | 5,00 +0.83 Barclays Prime Account H.I.C.A. 10 Box 125, Northampton Berclays Prime Account H.J.C.A:

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170,000-12-4,899 300 255 305 08 Iroura Shipley & Co Ltd HCA 3.36 4.59 Orr Prof Decembed Arc 4.5 3.36 4.58 Orr

0771-248 4000 4.23 Mm 4.59 Mm 4.85 Mm 3.12 Mm 2.15 Mm 2.00 Mm 2.27 Mm 2.53 Mm 3.19 3.38 3.56 3.75 1.13 1.60 1.60 1.88 Nykredt Mongage Bok 6.5 Chyclesidale Bank Flordige Solution Acc 20 St Vincent Pleos. Biospine Gt 228. 041—248 7070 \$10,000-529,995 420 3.15 4.27 0er \$20,000-99,995 420 3.17 429 0er \$100,000-1769,969 4.27 3.70 4.34 0er Standard Chartered .... 6

Charlescettica Bank I Institut Primen Read, Stevenays, 561 300 80 log timo Za 25,000— 9,95 Minly No C25,000— 9,50 1 W Flood Read 21,000— 7,40 5438 744500 5.21 7 D7 6-Aun 4.87 8.70 Abn 4.50 5.00 Young 6.55 7.40 Young The Co-operative Bank
PD Box 300, Sketmerates, Lanca
TESSA 8.00 1,500 to San 1,500 4.21 3.94 3.56 2.81 3.38 3.00 2.25 1.56 1.13 Members of British Merchant fanking & Securities Houses 4.55 8-Mm 4.04 0-Mm 3.02 6-Mm 2.07 8-Mm 1.51 6-Mm

Dao Hong Bank (London) PLC Premier Acc 16 Newmo Street W1F 3LD 071-631 3313 P2-500-C10,000 5.00 775 5.00 08 P20,000-2000 5.00 775 5.01 08 P20,000-2000 5.00 775 5.01 08 P20,000-2000 5.00 775 5.01 08 P20,000-2000 5.00 775 6.00 08 P20,000-2000 5.00 775 6.00 08 P20,000-2000 5.00 775 6.00 08 | Devention | Tet Pic-Devention | 500 Acc | 651 bits St. Handwiter AS 400 | 061-832 8494 | 710,000+ (atters | 200 6.75 | - 5-450 | 710,000+ (atters | 200 6.75 | - 400) Fidelity Money Mariest Account Regilly Brokerage Services Ltd. Oakhill No E1-849 999 - 4 500 375 4 50 Gr 150.000-6249.000 - 500 275 5.00 Gr 150.000-6249.000 - 500 275 5.00 Gr 150.000-6249.000 - 500 675 5.00 Gr 150.000-6409.000 - 500 675 675 Gr Sartmore Money Management Ltd 18-18 Money St Longoo FC3R 800 071-236 1429 HICA 510,000 + . . . . . . 450 3.375 | 4.58 | 3-666 Affinix Bidg Sec Asset Reserve Chemius Acc Inthy Read, Public 1911 294. 0422 335333 5,000-09 599 500 373 5.69 Dr 1000-094 500 150 4.73 5.77 Or 1,000 and above 6.35 4.76 6.77 Or 0,000 and above 6.35 4.76 8.80 Dr wort Beason Private Bank Performs Bidg Soc Prestige Chemp Account
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STOCK INDICES
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#### **LONDON SHARE SERVICE**

**BRITISH FUNDS** | Notes | Post | due due

123 Mc20 Sc30 22.2 1908 3,908 Mg20 Mc21 13.4 1258 1,900 Jy15,1615 8.8 1947 3,800 Sc28 Mc25 17.2 1254 1,722 My10 My16 11.4 1285 1,728 Mc2 Wc2 15.4 1242 4,788 Sc3 Mc3 25.7 1244 4,788 Sc3 Mc3 25.7 1244 4,789 Sc3 Mc3 25.7 1244 4,400 Ac26 Fc25 20.7 1280 4,150 Jy16 Dol16 - -134& 1193 1094 1294 7734 1134 1075 1294 2115 1004 358 Fe1 Au1 1,809 Je1 De1 122 Ap1 Oc1 36 Ap5 Oc5 276 SJAADJ/Oc 475 Ap1 Oc1 4812 0.9 4813 0.7 623<sub>9</sub> -A 3413 1.5 305<sub>9</sub> -A 28<sub>4</sub>3 1.1

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The Chart Seminar - Proponted by David Fuller - 25th year 1 & 2 July Copenhagen Luxembourg 2 & 3 September Fax: 671-439 4965 7 & 8 October



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The state of the s

26		LONDON SHARE SERVICE	FINANCIAL TIMES MONDAY JUNE 14 1993
AMERICANS	BUILDING MATERIALS - Cont. CONTRACTING & CONSTRU		OTELS & LEISURE - Cont. INVESTMENT TRUSTS - Cont.  WK. M. Dev Devidends Mid. Lind. City White Prince Devidends Link City White Prince Dividends Link City White Princ
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## Apostle of low inflation

Donald Brash, governor of the Reserve Bank of New Zealand, speaks to Kevin Brown

r Donald Brash, governor of the Reserve Bank of New Zealand, is rare among central bankers: he has also been an active politician. He might have heen appointed finance minister in the present conservative government had he not heen deprived of a safe parliamentary seat hy a hy-election protest vote 12 years ago.

Yet it is hard to see how he could have had more impact on New Zealand from the Beehive. the government building, than he now has from the governor's office across the road.

In four and a half years as governor, he has presided over a fall in the rate of inflation from 9 per cent to I per cent. More important, the consensus among economists is that price stability can be maintained, extraneous sbocks aside

Government ministers, from the present prime minister down, praise Mr Brash's skills highly in private, and even Mr Mike Moore, the Labour opposition leader, says he has great admiration for Mr Brash's handling of monetary policy.
Interviewed in his spartan

office, Mr Brash is keen to talk about New Zealand's victory over inflation, hut modest about his own role.

Softly spoken and reticent, he is flattered by overseas interest, if a little surprised at the form some of the praise has taken. With a laugh, he refuses to comment on the suggestion by Samuel Brittan of the FT that he should have been appointed governor of the Bank of England.

Mr Brasb does not claim sole credit for transforming New Zealand's Inflation prospects. Radical labour market deregulation and fiscal prudence by the conservative National party government have helped to reduce inflationary pres-

He is also becoming something of an apostle for New Zealand's innovative Reserve Bank Act, passed with crossparty support by the former Lahour government in 1990, which put ultimate responsibil-ity for fighting inflation in the governor's lap.

Mr Brasb will be evangelising on the benefits of central bank independence in London this Thursday in a speecb to the European Policy Forum, the free-market think-tank. He will resist the temptation

to present the New Zealand

The writing is on the

about Bosnia".

peared. The west has now con

clusively advertised its refusal

to do anything effective about

the tragic war in Bosnia. in a

last, minimalist gesture, the

United Nations voted 10 days

ago to authorise the use of

troops to defend Sarajevo and

five other towns as "safe

havens" for the Moslems. Last

week. Nato foreign ministers

duly endorsed the new UN pol-

icy. Only one thing was miss-

ing - any willingness to pro-vide the minimum number of

5,000 extra troops needed to

in preference, Nato govern

ments agreed on a three-point

atrategy which signalled clearly that they have virtually

written off this bloody conflict.

First, Nato aircraft will patrol

the skies. In theory, this is to

protect UN troops in the safe

havens hut, in reality, air

strikes cannot substitute for

inadequate troops because they are as likely to kill civilians as

Serh soldiers. Second, the US

will make the cost-free gesture

300 soldiers to Macedonia,

where there is no fighting, as a

symbolic deterrent to any

rider ambitions by the Serbs.

And third, Nato will hold a

try to work out how to do bet-

three-point strategy can he summed up in three words:

gesticulation, containment.

Each of these elements is

nnderstandable in its own

terms. The trouble is that,

In plain English, Nato's

ter in future.

carry it out

any willingness to pro-

wall. It says: "Too bad

All doubt has disap-

model as a complete solution to the UK's inflation problems. But his elucidation of the act's 'elegant constitutional structure" will add weight to those, such as the combative Mrs Ruth Richardson, New Zealand's finance minister, who believe it would transplant relatively easily to the UK.

The act marked a watershed for New Zealand, which had suffered double-digit inflation for most of the 20 years since 1970, with the exception of an artificial fall during a prices freeze in 1983-84.

Supporters claim the act achieves a compromise between the relative subservience of Threadneedle Street to the UK government and the lence of the US Federal Reserve and Germany's Bundesbank.

As with the Bundesbank, the Reserve Bank of New Zealand has total independence in the operation of monetary and exchange rate policy, subject to the provision that its sole objective is to achieve and maintain price stability. But the act leaves the defini-

tion of price stability to the government, which sets a target range for inflation in the form of a personal contract with the governor, usually for a fixed five-year term.

The government can amend the contract, by fiat or by negotiation, but any change must be made formally and publicly, ensuring that monetary policy is always transpar-ent. The government can also fire the governor if he falls to achieve the target but, contrary to popular belief, his salary is not directly linked to inflation performance.

The act has made Mr Brash a symbol of New Zealand's commitment to low inflation, and no one was surprised when Mrs Richardson announced nine months early that he would be reappointed for five years from this September. His contract will require inflation to be maintained at 0-2 per cent effectively a continuation of the existing contract, which required him to reduce inflation to 0-2 per cent between 1990 and September 1993.

The government's role in choosing the governor means the bank is only as independent as its leader. It would be possible, concedes Mr Brash, for a government to relax its anti-inflationary stance, for example, by appointing a compliant governor or by pressing



The Reserve Bank Act 'is a very useful bulwark'

an incumbent hoping for reappointment to accept a renegoti-

ation of the target But he argues that the openness of the system, combined with the disciplines imposed by the financial markets, make it unlikely that any government would take the risk, "It is ohviously important to have someooe in the post who strongly believes in price stahility, but the framework does make it more difficult to derive the essentially short-term ben-

#### PERSONAL FILE

1940 Bom, Wanganui. Educated Canterbury University, NZ; PhD, Australian National 1967 World Bank, Washington,

1971 Chisf executivs, Broad-National party parliamen-tary candidats.

1982 Chief executive, NZ Kiwifruit Authority. 1986 Chisf sxecutivs, Trust

1988 Governor, Reserve Bank.

chits of pushing inflation up. "The incentives for a government to do that are not great because they have to make their intentions clear. An instantaneous bond market reaction would follow any loosening of the target by an injudicious amendment of the contract; governments know that."

But these are hypothetical problems. In practice, the most frequent complaint against Mr Brash is that he has pursued low inflation with excessive zeal, at high social cost. Mr Ken Douglas, president of the Council of Trade Unions and a critic of the act, claims the central bank put tha economy into shock hy distuflating too rapldly, causing a loss of confidence and high unemployment: "We have been an international experiment for the mad

Question mark over Nato

scientists from the International Monetary Fund. No other economy has been as savagely restructured as ours." Psrhaps surprisingly, Mr Brash hints that the initial target may indeed have been too rigorous, It was "very narrow". and he admits it left little leeway for forecasting errors.

He also concedes that the hank made mistakes in manipulatiog the "crude steering device" of monetary policy, particularly during the trough of the New Zealand recession in 1991, when inflation feli faster than expected, But he rejects the suggestion

that the bank contributed to the depth or leogth of the recession, arguing that the long-term benefits of rapid disinflation greatly outwelch the short-term pain. "New Zealand has incurred

all sorts of costs through being late into the disinflation game, but one of the advantages was that we were able to learn lessons from what had been done elsewbere." be says.

"For example, in many of the countries where disinflation bas been achieved, wage settlements have not been moderated, so that when the foot came off the monetary brake inflation took off again.

The bank's most significant achievement, he says, has been a change in inflationary expectations. "One of the most important things that bas happened is that, regardless of whether people agree with the policy, they know that miserable hloke in the Reserve Bank is going to keep pursuing it."

Selling this message is becoming easier as New Zealand consolidates what appears to be a sustainable economic recovery. Growth in GDP reached 3 per cent in the 12 months to December, and is widely forecast to be 2.5 to 3 per cent for the next two years.

But Mr Brash chooses his words carefully when asked if the New Zealand model could deliver similar results in other countries. Mrs Richardson asserts that the act is part of New Zealand's "exportable eco-nomic policy technology". Mr Brash, however, says the act nicely balances the understandable desire on the part of an elected government to have an involvement in the targetsetting process with the universally agreed fact that independent central banks are able to deliver low inflation rates at lower costs than central banks

"It is a very useful bulwark against any government which might wish to return to the had old days of saying one thing to the public [about the need to control inflation] and at the same time trying to get mortgage rates down before an election. That is the sort of thing which used to happen in New Zealand, and cannot happen now.

pensions of up to \$20,000. So long as the ratio of pen-

which are subject to very close political direction.

## The pension bomb. ticks unnoticed

f President Bill Clinton were truly a "new demo-crat" he would launch a national debate about the future of the federal government's largest programme social security (pensions and disabled). The point would not be to tamper with the benefits of existing retirees but to ask whether the promises made to current workers make sense or, indeed, can be honoured.

In just over a decade, the huge "baby boom" generation (people born between 1945 and 1965) will start retiring. Over time, this will put enormous pressure on the federal hudget. On official estimates, the number of social security beneficiaries per 100 insured workers will shoot up from 31 today to about 50 in 2030 and, on pessimistic assumptions, to perhaps as many as 80 hy 2070.

If US social security were an austere "safety net" scheme, the demographic pressures might be manageable. It is not. Broadly speaking, the US is in the position of Britain in the early 1980s before the Thatcher government savagely pruned the state earnings-related pension scheme (Serps). In contrast with the basic Britisb pension, which rises in line with inflation, retiring Americans receive a generous federal pension based on their average lifetime earnings; once the pension payments begin they are indexed for inflation. This year, retiring single-earner conpies will get federal

sioners to workers is stable. pension liabilities rise at roughly the same pace as average earnings. But, if the ratio of pensioners to workers shoots up, as it will when baby boomers retire, the system is threatened with insolvency. Social security taxes are currently about 12.6 per cent of payroll earnings. Federal actuaries reckon that pension payments will rise from 11.6 per cent of earnings today to about 18 per cent late in the 21st century. On more pessimistic, yet plausible, assumptions, the ratio could rise to 27 per cent.

If the far shakier trust fund



AMERICA

covering medical benefits is included, the figures look much worse: total benefit payments rise to 31 per cent of payroll or a mind-boggling 52 per cent on pessimistic assumptions. In other words, on unchanged policies present social security promises could require anything from a 50 per cent increase to a near quadrupling of payroll taxes on the

working population. When Mr Clinton is grappling with so many more ediate problems, including healthcare reform, it may seem perverse to expect him to bother about long-term demographic trends. After reforms in 1983, social security is expected to generate surpluses for at least the next decade. But letting the 21st century take care of itself is highly irresponsible. The trouble with pensions is that you have to give plenty of warning. It is no use waiting until 2010 and then telling 65year-old baby-boomers that the nation can no longer honour its commitments. If future pensions are to be scaled hack, baby-boomers must be told today so as to have a chance of increasing their private

There are two main steps that could be taken to reduce future pension liabilities. The link with earnings could be hroken or greatly watered down. Payroll taxes would then rise much faster than pension benefits, compensating for the decline in the worker-pensioner ratio. The retirement age could also be increased beyond 67 to, say, 72 to reflect past and prospective improvements in life expectancy.

But, rather than simply

scheme, it would make sense to consider radical alternatives. The threat of higher taxes on future workers arises mainly from the difficulty within a public scheme of one generation funding its own pensions. The \$50bn social security surplus generated last year was only notionally "invested" in US government securities. In reality it was spent just like any other government receipts. When the social security fund's claims fall due in 20-30 years, the Treasury can honour themonly by raising taxes of

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increasing borrowing.

There will always be a strong case for a federal salety. net pension, to keep the elderly out of poverty. But there is no economic reason why the federal government should be raising huge sums in payroll taxes (more than \$400bn last year) to be recycled as earnings related pensions. If Mr Clinton were bold, he would suggest instead that payroll taxes be sharply cut and individuals be required to invest the cash released in portable private pension schemes of their own choice. Baby-boomers' pensions would then depend on the performance of their equity portfolios, which in turn would depend on the economy's strength. Current workers would no longer face steadily rising payroli taxes.

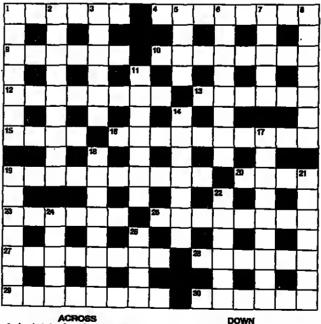
The political advantages of replacing social security (for future retirees) with mandated contributions to private schemes would be legion. Mr Clinton could claim to have cut taxes sharply, increased per-sonal responsibility, headed off the future insolvency of social accurity, given the financial services industry a boost and, in all probability, sharply increased the national savings. rate. He would be the savviest new Democrat in town.

The depressing reality, of course, is that no American politician (Democrat nor Republican) has the courage even to begin such a debate. Social security is regarded as untouchable, whether or not the rules make sense.



### **CROSSWORD**

No.8,175 Set by DANTE



- 9 Not related (6) 10 Rock opera first produced by
- 15 Little creatures among those
- 29 Score but two (8) 30 Wizard filer (6)
- DOWN

  1 Give another order to pack and shift position (7)

  2 Native S. African provides a
- warming drink about ten (9)
  3 One must support the law to some degree in this African state (6)
  5 Rounds of drinks? (4)
- 6 Rounded up but not rounded Cut of the cloth! (5) Church gloomy about witch-
- craft (7) Vessels among the waves perhaps (7)
- , man about to put plate 14 Church out (7) Sad ahout girl losing her head, getting the sack (9) Indisposed star can't perform
- work? (5.2)

The solution to last Saturday's prize puzzle will be publish

#### BUILDING OF A HOTEL FOR A MAJOR **AIRPORT**

Aeroporti di Roma S.p.a., the Company in charge of Rome's airport network, hereby announces its intention to offer 10 a subcontractor the direct management, including the design and construction, of a new first class (four-star, by Italian standards) hotel complex indicatively of 400 (four hundred) rooms, to be situated in the centre of Leonardo da Vinci Intercontinental Airport at Fiumicino, Rome.

Aeroporti di Roma reserves the right to select the most suitable candidates among the companies expressing an interest in this project.

Any hotel chains that may be interested should apply in writing, enclosing a general profile of their company and making specific reference to any hotels of ... at least four-star category, operated under a single registered name with international acclaim. These should be no fewer than 15 (fifteen) in number, and should have at least 250 (two hundred and fifty) rooms.

All applications, which shall in no way be legally binding on Aeroporti di Roma, should reach the following address at the latest by 10.00 hours on July 15, 1993:

> Aeroporti di Roma S.p.A. Ente Commerciale e Marketing Via dell'Aeroporto di Fiumicino 00050 Fiumicino Aeroporto (Fax 396/65953956)

> > The Managing Director (Alberto Morandi)











damaging for the west - never mind the terrible sufferings of the people of Bosnia. They are damaging to the political and moral authority of the west, damaging to relations between Europe and the US, and damaging to the credibility of Nato. This damage will not be put right by yet another summit. The ostensible purpose of the

meeting is to plan for Nato's future. The real purpose is to try to patch up the transatlan-tic rift exposed by the war in Bosnia. The Clinton adminis-tration will hope to impress the Europeans with the president's leadership and commitof sending a little company of ment to the alliance. But the war in Bosnia has demonatrated a profound divide in stratsgic interests between Europe and the US, and it will not be erased by any summit communique. From the US special summit meeting towards the end of the year to point of view, there may be very good reasons for not wanting to get involved in a small civil war on the southern fringe of Europe. But the US's critical mass is such that its refusal has hobbled the rest of

Of course, it is unreasonable to lay all the hlame on the US. From the beginning of the Yugoslav crisis. European governments repeatedly advertised their reluctance to use military force, thus renouncing the option of intimidating the warring parties. But US reluctance further undermined the military option for Europe. As It is, France and Britain

are hy far the biggest contributors of troops to the UN humanitarian protection force in Bosnia. But a shift from humanitarian protection to the active use of military force would require a large increase in troop strengths, which could come only through the mobilisation of resources across the breadth of the alliance. Thus, the US rsfusal virtually amounted to a veto. After this, there must now

he a serious question mark over Nato's future. Nato has lost its original unifying raison d'être with the disintegration of the massive military threat from the Soviet Union, though it is possible that the political turmoil in Russia mey again confront the west with a seri-ous military threat. Meanwhile, all alliance govern-ments, including the French, want to keep Nato going, at the Rome Summit of 1991, they drafted a new strategy for peace, based on dialogue and co-operation between east and

Unfortunately, they skirted round the central probability that the most immediate threats to the stability and security of Europe would be likely to coms from smaller and less predictable regional conflicts. The war in Bosnia is only one of saveral conflicts detonated by the break-up of the Soviet bloc. Others include the war in Georgia and that

between Armenia and Azerbaijan. The new Nato strategy recommends "crisis management" and "conflict prevention"; hut It does not say how these admirable functions would be carried out by an essentially military alliance like Nato. That uncertainty has been made more acute by the war in Bos nla, because it has revealed profound differences in strate gic appreciation between Europe and America.

The Bosnian war, and the

west's inability to stop it by

force, provide the motivation

behind the French proposal for a "pact for security and stahility in Europe", put forward hy Mr Edouard Balladur, the French prime minister. The French objective is to prevent a repetition of the Yugoslav tragedy, hy some sort of collective management of potential conflicts over frontiers and ethnic minorities. Exactly how these conflicts are to he defused is far from clear. But the French seem to envisage some sort of diplomaticsecurity negotiation conducted hy the European Community.

The first problem is that ethnic conflicts are liable to beingdriven by hlind emotion. As in Bosnia, they may not he susceptible to rational negotiation by outsiders. The second prob-lem is that the Freoch scheme will need to be very amhitious if it is to measure up to the two most serious crises in the former Soviet Union: Russia's claim to a right to intervene in neighbouring states: and the potential for conflict in the tension hetween Russia and Ukraine over Ukrainian territory, Ukrainian nuclear weapons, and even Ukrainian inde1 An intriguing design? (6) 4 Wild cat's leap subdues (8)

a worker (8) 12 Worrying hohby? (8) 13 Soldiers give up and fall back

left standing (4)

18 Six hours' time to pay (7.3)

19 Give 50% rebate on ticket? (6,4) 20 Divine Egyptian currently in 11

23 Putting spirit into a severe beating (6)
25 Stimulating prison group (8) 25 Stimulating prison group (8) 27 Shaken and upset (8)

28 They're not profitable for companies to make (6)

(8) 19 Free delivery (7) 21 Nominally comm 22 Go over undulating track (6) 24 Many fish act like limpets (5) 26 Present her with a key (4)